

# NXUBA MUNICIPALITY



## 2010/2011 ANNUAL REPORT




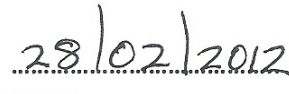
**11. REPORT TO COUNCIL ON THE DRAFT ANNUAL REPORT 2010/2011 FINANCIAL YEAR: (2/1)**

**RESOLVED:**

- 11.1 **THAT** the Draft Annual Report for 2010/2011 Financial Year be adopted by the Council.
- 11.2 **THAT** the written comments and submissions be submitted to the office of the Acting Municipal Manager.
- 11.3 **THAT** the office of the Mayor and the Acting Municipal Manager will call Auditor-General to assist in scrutinizing the document regarding issues raised by Councillor Lombard on remuneration of Managers in the Draft Annual Report to enable them to assist the public when they raised these issues.

**IN – COMMITTEE:**

  
MAYOR / SPEAKER

  
DATE


13 **REPORT: MPAC PRESENTATION ON ANNUAL REPORT:** (2/1)

The attached MPAC report were presented by the Chairperson, Councillor P. Jack in the meeting.....P

**RESOLVED:**

- 13.1 **THAT** the Final Annual Report for 2010/2011 be adopted without reservations.
- 13.2 **THAT** the MPAC report be also adopted.
- 13.3 **THAT** the issues identified in the MPAC report be incorporated in the Audit Action Plan.

  
.....  
MAYOR / SPEAKER

  
.....  
DATE

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# FOREWORD



By the Mayor  
Councillor Louisa Leonora "Dolly" Bruintjies

## **PART 1: Introduction and Overview**

### **FOREWORD BY THE HONORABLE MAYOR (Cllr L.L.D. Bruintjies)**

Nxuba Municipality is a Local Municipality in the Amathole District, situated in the Eastern Cape of South Africa. Its administrative seat is the town of Adelaide. The urban population is mainly located in the two small towns of Adelaide and Bedford. As a low capacity Municipality in terms of the framework for the implementation of Municipal Finance Management Act No.56 of 2003, the preparation of Annual Report has become peremptory in respect of the 2010\2011 Financial Year as a result some effort have been made to make the annual report as informative as possible despite the obvious challenges we have faced.

As a Mayor \ Speaker of Nxuba Local Municipality, I acknowledge the size of the shoes that I have to fill but I am confident that together with the Council and Municipal Manager at the reins, we can bring about an even more positive influence in the lives of our people, both rural and urban communities, which together constitute Nxuba Local Municipality .

One of the highlights of 2011 was the visit to the Provincial EXCO (Local Government on 4 and 5 August 2011. Our engagement with them has resulted in much needed assistance being provided on some of our projects and we are confident that because we now have business plans for all those projects, this will yield positive results.

But in so doing, we should all endeavour to work together as partners in finding solutions to our common goals. Where there are differences, real or perceived, let us engage in constructive dialogue in order to establish common ground and reach amicable solutions. As the local municipality, we will continue to be responsive to constructive criticism and suggestions as well as to remain accountable to the communities.



HONORABLE MAYOR  
Councillor Louisa Leonora "Dolly " Bruintjies

# STATEMENT



From the Office of the Acting Municipal Manager  
Mr Siphiso Caga

## **B. The Yearly Program Priorities' Statement by the Acting Municipal Manager**

The 2010/2011 Financial Year marks the end of the 5-year term of the Council that was elected in 2006. A number of priority areas have been identified in Nxuba's Integrated Development Plan for the implementation of programs and projects in order to achieve the goals as set out in the IDP.

In order to implement its programs the Municipality has identified 5 key performance areas for the 2010/11 financial year. These are the following:

### **KPA 1:      Municipal Transformation and Institutional Development Including Human Resources, Skills Development, Records Management, Information Technology, Council Support etc.**

The organisational structure of the municipality was revised in order to align it to its integrated development plan. Various trainings were provided to municipal councillors, staff and ward committees in order to capacitate them, thereby sharpening their skills in the performance of their duties. The municipality also revised and adopted new policies and plans for the institution in order to carry out its mandate, including the employment equity plan, supply chain management policy, skills development plan. The internal audit function was outsourced in the year under review and achievements in this field were noted as the municipality has been without this function for a considerable period of time.

In spite of the above achievements, the Municipality experienced resignations in key and critical positions during the year under review and it became a challenge to fill those positions: Chief Finance Officer, Corporate Services Manager, IDP/PMS Officer, Supply Chain Management Officer etc. These had a detrimental effect on the implementation of the Integrated Development Plan:

### **KPA 2:      Basic Service Delivery and Infrastructure Development.**

In the year under review there has been an addition of 3.8km of paved roads for both Adelaide and Bedford. Fencing of grave-yards has continued and it is expected that in the next financial year, all cemeteries in Nxuba will be completely fenced. It is estimated that about 98% of all households in Nxuba have access to electricity. The Integrated Waste Management Plan has been developed and funding is being sourced so as to implement identified projects.

The Municipality has experienced intermittent breakages in the collection of refuse due to old plant and equipment. In the year under review, two housing projects were unblocked and construction has started in earnest. This will alleviate the plight of the homeless and those whose houses were blocked many years ago.

The Municipality has not been able to address the huge backlogs in terms of service delivery due to financial constraints and limited funding from other spheres of government:

### **KPA 3: Local Economic Development**

The Municipality has managed to develop and promote its enterprise development by providing business skills training to its SMME's. Focus in the 2010/11 financial year was agriculture and the Municipality, together with other Government Sectors, provided communities with food gardens and livestock thereby improving their livelihood.

Funding for LED projects remains a great challenge in this Municipality. Nxuba is now in the process of developing its Local Economic Development Strategy.

### **KPA 4: Financial Viability and Management Including Revenue Enhancement, Budget Reform, Financial Management, Asset Management, Supply Chain Management**

A Revenue Enhancement Strategy has been developed by the Municipality to improve its liquidity. The Municipality has been experiencing a number of challenges in its financial viability. It has not been able to service its debt on time with Eskom and also experienced cash flow problems in paying its outstanding creditors. The Credit Control Policy has been reviewed and is being implemented.

### **KPA 5: Good Governance and Public Participation**

The outsourced Internal audit function managed to prepare the internal audit charter, risk assessment register, risk management policy, audit performance information, preparation of a 3 year internal audit plan and audit of traffic section. This strengthened the functioning of the audit committee and was able to perform its oversight function.

The performance management framework was reviewed and implemented in 2010/11 financial year and performance contracts for senior managers concluded and signed. Public participation programs have been conducted through the Mayoral Imbizo's, IDP/Budget Road Shows and ward committee meetings.

With the election of new Councillors in May 2011, the Municipality had to establish new Ward Committees. The Municipality is in the process of capacitating the newly elected Ward Committees.



# Overview



## C: Overview of the Municipality

### Introduction

Nxuba Municipality includes the areas and functions of the former Adelaide and Bedford Transitional Local Councils, as well as certain rural areas of the former Transitional Representative Councils. Both the administrative and legislative seats of Nxuba Municipality are situated in Adelaide. Nxuba Local Municipality is classed as rural and consequently experiences certain challenges which are inherent to such municipalities. Such challenges include, inter alia, the following:

- Huge infrastructural backlogs
- Inadequate revenue base resulting in total reliance on government grants and inability to attend to basic service delivery
- Inability to attract the skills required for effective service delivery
- Absence of systems, policies and procedures
- High levels of poverty and unemployment
- An economy that is growing far lesser than the national levels
- A spiral of the HIV and AIDS pandemic

The institutional reconfiguration of Nxuba Local Municipality, the up-skilling of the workforce and the reshaping of the strategic focus of the Council, are central for the attainment of the ideal of a better life for the people of Nxuba.

### Municipal Council – 2006 TO 2011

Cllr. M. Mana	-	Mayor / Speaker
Cllr. C. Auld	-	Chairperson: Finance, Estates and Tourism
Cllr. S. Maseti	-	Deputy Chairperson: Finance, Estates and HR
Cllr. N. Mahleza	-	Chairperson: Community Affairs and Health
Cllr. T. Ngetu	-	Deputy Chairperson: Community Affairs and Health
Cllr. E. M. Mnqamisa	-	Chairperson: Public Works and Trading Services
Cllr X .E Mdlungu	-	Deputy Chairperson: Public Works and Trading Services
Cllr. X. Makhenyane	-	Councillor

### Ward Committees

Four Ward Committees have been established in the Nxuba area – Three Urban Ward Committees and One Rural Ward Committee.

The Ward Committees are represented and chaired by the following Ward Councillors

#### 1. Ward 1: Rural area – Cllr S. Maseti

This Rural Ward comprises two commercial farm areas and two informal settlements. Each farm is represented by:

- Kroomie - Mr. E. Nomkala
- Tambo - Mr. A. Slatsha

These are the Ward Committee Members from Ward 1 under Councillor Maseti.

- Zandisile Joseph Sono
- Lonwabo Makaka
- Nomatamba Colia Noganta
- Mzwandile Phillip Mayaya
- Jean Lombard
- Ernie Lombard
- Ntombise Mirriam Maqumbu
- Andile Gqalisisa
- Izak Stefanus Klein
- Lukhanyo Dyobela

Informal settlements:

- Adelaide Town - Mrs. J. Lombard
- New Lingeletu - Mrs. N. C. Noganta

## **2. Ward 2: Urban area – Cllr T. Ngetu**

These are the Ward Committee Members from Ward 2 under Councillor T. Ngetu

- Bantu Odwa Moyo
- Nobhelu Balangile
- Pumla Maseti
- Hezekiel August
- Patricia De Lange
- Vusumzi Petros
- Kholeka Tshanga

## **3. Ward 3: Urban area – Cllr N. Mahleza**

Goodwin Park, New Bright, Bedford Town, Lower Phola Park and Bongweni.

These are the Ward Committee Members from Ward 3 under Councillor N. Mahleza

- Zola Maxwell Maha
- Monday Mbuzeli Katywa
- Nomalizo Gertrude Qengwa
- Nomathamsanqa Ntabeni
- Phumla Irene Tshangana
- Sizwe Ndzube
- Eric Moyakhe Labi
- Pasika Jack

## **4. Ward 4: Urban area and rural – Cllr E. M. Mnqamisa**

Ndlovini, Khayelitsha, Nonzawakzi, Upper Phola Park and Bedford District

These are the Ward Committee Members from Ward 4 under Councillor E. M. Mnqamisa

- Nomvula Slinger
- Thozamile Qhalo
- Nompumelelo Ngetu
- Vuyokazi Slatsha
- Zukiswa Mncono
- Nondyebo Gqebe
- Lindikhaya Bhetya
- Sikhumbuza Ngesi
- Thembeke Mgoqi

All the above ward committees cease to exist immediately after the Local Government Elections in May 2011

### **As from May 2011 the new Council**

Cllr. Mrs L.L Bruintjies	-	Speaker / Mayor)
Cllr. Mrs C.A Auld	-	HR & Admin/ Deputy Finance & Estates
Cllr. Mr G. De Lange	-	Libraries & Museums
Cllr. Mr P. Jack	-	Chairperson: Finance & Estates
Cllr. Mr E. Lombard	-	Councillor (Adelaide Hospital)
Cllr. Mr Q.P Maloni	-	District Councillor (ADM)
Cllr. Ms B.P Mentoor	-	Chairperson: Community Affairs & Health
Cllr. Mr S.A Ndyambo	-	Chairperson: Public Works, Trading Services, LED and Tourism

### **Ward Committees**

#### **1. Ward 1: Cllr S.A Ndyambo**

- |                      |                  |
|----------------------|------------------|
| • Mr J.M.Prinsloo    | Ratepayers       |
| • Sinethemba Mjakuca | Youth            |
| • Gqalisisa Andile   | Emerging Farmers |
| • Jean Lombard       | Education        |
| • De Wit Christian   | Religious        |
| • Tukani Masixole    | Sport            |
| • Sajini Mboyiya     | Disable          |
| • Rooiland Samkelo   | Health           |
| • Muir Vivian        | Business         |

- Sanadayi Nozipho Women

## 2. Ward 2: Cllr L.L.D Bruintjies

- Mcebisi Tembani Youth
- Patricia de Lange CPF
- Rangula Ntombizodwa Women
- Bantu Moyo Community Safety
- Balangile Lungiswa NGO
- Lindile Sinqana Disable
- Mavis Mentoer Religious
- Somi Solo Tourism
- Toni Thembisile CBO
- Frans Christian Sport

## 3. Ward 3: Cllr P. Jack

- Ndlela Vuyani Sport
- Linda Zako Church
- Yvonne Mahleza Business
- Zingisa Khoza-Jacobs CPF
- Ndzube Glen Disable
- Jean Stevens Ratepayers
- Nomalizo Qengwa Elderly
- Nawule Siphesihle K. Youth
- Bana Yandiswa Women
- Baba Monica NGO

#### **4. Ward 4: Cllr B. Mento**

- |                       |                  |
|-----------------------|------------------|
| • Mlungwana Sindile   | Sport            |
| • Mahleza Mpho        | Business         |
| • Zolile Calana       | Elderly          |
| • Gqebe Grace         | CPF              |
| • Micheal Vitialingun | Youth            |
| • Phumza Mento        | Women            |
| • Mtwebane N          | Religious        |
| • Mange Lwando        | CBO              |
| • Mento Thembisile    | Disable          |
| • Siyabulela Nkawu    | Community Safety |

#### **Standing Committees**

The Standing Committees are responsible to:

Appoint a Chairman and a Deputy Chairman for a Committee, Delegate either absolutely or conditionally to a Committee any of its powers, duties or functions under this or any other Ordinance, other than those which are required to be exercised or performed by Special Resolution: Amend or withdraw any such delegation, provided that any amendment or withdrawal of any such delegation shall not invalidate anything done in pursuance of a decision lawfully taken by such Committee, Discharge any or all of the members of a Committee, or Discontinue any Committee

#### **Frequency of standing committee meetings and ordinary council meetings**

Standing Committee and Ordinary Council Meetings are held once in every second month respectively.

#### **Attendance of meetings**

All Councillors devote much of their time to matters related to their respective portfolios and representation on public bodies.

Ward Committee meetings were not held regularly, since few reports were received from the relevant Ward Committees. Ward Committees were established to improve communication between the Council and the various structures.



## **Administrative support for council activities**

Councillors are being supported by the Municipal Manager and supporting staff in all Council activities

- Attending meetings to explain policies of the Council and any technical information.
- Assisting in interpreting Municipal legislations.
- Organising cultural activities for Youth Day, Women's Day, Freedom Day, etc

## **Spatial and Land Use**

- The Nxuba Municipality is situated at approximately 220 km east of the Nelson Mandela Metropolitan Municipality
- The area is divided into 4 wards (1 rural and 3 urban)
- Mountain terrain and hill with moderate gradients characterises the area
- The study area is mostly underlain by sedimentary rock of the Balfour formation, shallow mudstone and sandstone of the Beaufort group
- Poorly developed soil on rock with limestone is found in the lower lying areas
- Adelaide and Bedford are the main urban centres
- Highest population concentration is found in urban areas
- The rural areas (beyond urban areas) comprise formalised privately owned farms

## **Access to water services**

This is no longer a function of Nxuba; this function was taken over by ADM in July 2006. The Nxuba Municipality is playing an oversight role.

- The majority of the households have access to potable water:- on-site 67% and public taps, 25%
- There is insufficient bulk water supply for Adelaide
- 20% of the households, most living in Lingeletu and Nyarha, are using bucket systems
- Most households have access to telephones and postal services
- The solid waste site in Adelaide is not permitted in terms of the minimum requirements for a landfill site
- Roads are on average in poor condition
- Erosion is the main problem on the gravel roads
- Due to ownership issues, the status of services is unknown in these rural areas. The Municipality does not supply any services to the privately owned farm communities.

## **Social Infrastructure**

- 2 Hospitals (in Adelaide and Bedford) and clinics are spread throughout the region
- Educational facilities are spread throughout the area, however the teacher pupil ratio is high:- 1:50 on average
- Sports facilities are within easy reach, but they need upgrading and maintenance
- Recreation facilities in the form of community halls also need upgrading and maintenance

- Magistrate Courts are located in both Adelaide and Bedford
- Crime is relatively low

### **Housing**

- The majority of the population (78%) live in formal structures
- According to PIMSS IDEA 2001, 1 139 households live in informal and traditional houses
- The current need for low-income subsidised housing is estimated at 3 146 units
- The expressed housing need in terms of the Provincial Housing Development Plan is 3 000 units
- Land is required for low income housing units

### **b) Socio-economic context**

- The area is characterised by poor socio economic conditions.
- Poverty levels are high with 75.9% of the population earning less than R800 per month and technically falling under the poverty line. This is exacerbated by high levels of unemployment and a high number of potentially economically active people not being economically active (60.8%).
- Low income levels imply a high dependence on social grants and 32.8% of the population is dependent on social grants. Old age pension and child support grants constitute the majority of grants.
- Agriculture is the dominant economic activity, followed by community and public sector services with manufacturing and the wholesale and retail trade trailing slightly. The community and public sector services have limited capacity for expansion.
- The employment sector is dominated by elementary occupations and occupations requiring low qualification levels.
- The Municipal area is characterised by relatively low education and literacy levels and 6.3% of the population over 20 years of age have no education while 36.9% have only some form of primary school education. Only 16% of the population has attained Grade 12, in addition only 7.2% have received a tertiary qualification.
- There are approximately 13 schools in the urban area of the municipality of which just over 17% are Senior Secondary Schools. There are no tertiary education facilities within the municipal area. Fortunately the University of Fort Hare (Alice Campus) is only 60 km from Adelaide.
- Health services are provided by the Department of Health who face many challenges. The Department has several programs in place namely the Saving Mothers, Saving Babies Project and Integrated nutrition programs. There are 2 Hospitals, 5 Clinics and 1 Mobile clinic.
- The average District HIV/AIDS prevalence is 26%. Although the prevalence has stabilised, HIV/AIDS remains a challenge and the Department is concentrating on the management of antiretroviral treatment of infected people. There is also a high level of TB in the region which is commonly associated with HIV/AIDS and the Department is also focusing its attention on the management of TB. Primary health care facilities offer HIV/AIDS testing and counselling services, but there is a shortage of ARV treatment sites with Fort Beaufort Hospital being the closest one in the District.

### **c) Major events of the year**

Nxuba events that have affected the working environment within Nxuba Local Municipality include scarcity of water and drought. Amathole District Municipality, as a water services authority devised means for the community to receive the basic service of water by transporting water from neighbouring towns in trucks during the drought.

Social events include the annual Bedford Garden Festival which is celebrated during the last weekend in October. This is funded jointly by Amathole District Municipality and Nxuba Local Municipality.

Local Government Elections were held in May 2011. The elections resulted in the change of political leadership as seven out of eight councillors were new in the municipal environment.

The Primary Health function was taken back by the Provincial Department of Health as of 1 January 2011. All the assets and liabilities relating to this function were subsequently transferred to the Department of Health.

# Executive Summary



## **D: Executive Summary**

### **Vision**

Nxuba Municipality, a catalyst for a sustainable development for all.

### **Mission**

Nxuba Municipality strives to render services in an integrated manner.

### **Introduction**

Another year of developing new strategies, improving skills, increasing service delivery and generally improving ourselves to excel in Local Government has come to pass. We look back at all the challenges we faced, as we close yet another Chapter in the history of our town and how we managed them together.

### **YEAR UNDER REVIEW**

The Nxuba Local Municipality has zoomed in on Social and Economic Development and Environmental Management of the entire municipal jurisdiction. The Administration has fully implemented the Batho Pele principles adopted by Council. The scene has been set and the momentum is in place for improved service delivery, greater responsiveness and increased accountability.

The broad development strategies and targets are contained in the respective master plans, which, in turn, are enshrined in the IDP.

Essentially, the IDP has been (and should always be) compiled with a strong focus on service delivery and infrastructure investment with the aim to achieve strategic development goals. In the process we have pursued a more practical IDP, which is holistic in order to enhance municipal performance. The IDP is practical in the sense that ideally it focuses on:

- Dealing with backlogs
- LED initiatives
- How to alleviate poverty
- Socio Economic Development
- Spatial Development Framework
- Effective use of scarce resources
- Sustainable Development
- Coordination between all spheres of Government
- Developing municipal capacity within the IDP framework.

The successful implementation of the IDP was achieved through the “bottom-up” approach, namely:-

- Full community participation
- Strengthening community structures
- Engaging local residents
- Providing accountable, transparent and fair representation
- Ensuring a consultative and sustainable process throughout

The establishment of 4 new Ward Committees will make it a lot easier to respond more speedily to the Community's needs and aspirations and provide a firm form of support to ensure fair and equitable service delivery.

We place high premium on the communities we serve.

The Nxuba Municipal Administration commits itself to:

- Equal access to services for all
- Ensuring that Trust and Confidence prevail
- Remaining transparent and accountable
- Insisting on best practices for optimal services delivery
- Sound financial management
- Striving towards optimal Local Economic Development with the emphasis on job creation
- Striving to create a platform for change



# Chapter 1



## Human Resources

Other Organisational Management

## PART 2: KPA ACHIEVEMENT REPORT

### Chapter 1: Institutional Transformation and Organisational Development –KPA 1

#### 1.1 Presentation of the organizational structure (approved organogram)

The total number of approved posts in terms of the organogram for the financial year under review is **168**. The difference in number of posts was as a result of the creation of a new component called Project Management Unit that came about as a result of funding made by Municipal Infrastructure Grant. The number of posts created was **2**. With the transfer the Primary Health Care unit with **21** posts to the Provincial Administration with effect from January 2011, the end result has been a decrease in number of posts. As at the end of the financial year the total number of vacant posts was **42** and filled posts are **126**.

#### 1.2 Staff development initiatives during the Financial Year

##### TRAINING THAT TOOK PLACE DURING THE FINANCIAL YEAR UNDER REVIEW

Type of training	Period	No. of trainees	Councillors	MM & Section 57 Managers	Officials
Mun. Finance Management	5 days, quarterly	2	none	1	1
Mun. Finance Management	5 days, monthly	7	none	none	7
Masters in Law & Admin.	5 days, quarterly	1	None	None	1
Cert. Programme in Management Development	5 days	2	None	1	1
PMS	5 days	4	None	1	3
IDP Capacity Programme	3 days	1	8	4	1
Learners License Testing	1 month	1	None	None	1
Project Management Intermediate	3 days	1	None	None	1
Cert. Programme in Management Dev. Mun. Fin.	5 days	2	None	1	1
Record Disposal Training	1 day	1	None	None	1

The municipality developed a Workplace Skills Plan which was approved by the Council and submitted to the LG SETA on 30 June 2010. As a result of busy operational activities that

faced the Municipality, the programme for the Workplace Skills Plan could not be fully implemented.

### 1.3 Key HR statistics per functional area

#### (a) Full time staff complement per functional area (examples are given below)

##### MM/SECTION 57 AND LINE MANAGERS

	Approved positions (e.g MM-S57 etc...)	Number of approved and budgeted posts per position	Filled posts	Vacant posts
1	Municipal Manager	1	1	0
2	Technical Services Manager	1	1	0
3	Chief Financial Officer	1	1	0
4	Corporate services Manager	1	0	1
	<b>Total</b>	<b>4</b>	<b>3</b>	<b>1</b>

## TECHNICAL SERVICES

Approved positions	Number of approved and budgeted posts per position	Filled posts	Vacant posts
Project Management	1	1	0
Building Inspector	1	1	0
Electrician	2	2	0
Superintendent	2	2	0
Foreman	2	2	0
Housing Officer	1	1	0
Land Use Management Officer	1	1	0
Data Capturer	1	1	0
Electrical Assistants	8	4	4
Security Guards	10	4	6
Refuse Driver	2	2	0
General Building Assistant	1	0	1
Refuse General Workers	15	15	0
Backhoe Driver	1	1	0
Building Maintenance	4	2	2
Parks General Assistants	15	15	0
Truck Drivers	2	2	0
Tractor Drivers	4	4	0
Street Cleaners	6	4	2
Roads General Workers	22	17	5
Cemetery Caretaker	2	0	2
Sport Ground	2	1	1
<b>Total</b>	<b>105</b>	<b>82</b>	<b>23</b>

## CORPORATE SERVICES

Approved positions	Number of approved and budgeted posts per position	Filled posts	Vacant posts
HR Admin. Officer	1	1	0
Personnel Clerk	1	1	0
LED Officer	1	1	0
IDP/PMS Officer	1	0	1
Chief Traffic Officer	1	1	0
Traffic Officer	2	1	1
Sen. Admin. Officer	1	1	0
Chief Librarian	1	0	1
Librarian	2	2	0
Principal Admin. Officer	1	1	0
Tourism Officer	1	0	1
LED Assistant	1	1	0
Information Clerks	2	0	2
Archives and Registry Officer	1	1	0
Switchboard operator / Typist	2	2	0
Receptionist / switchboard operator	1	1	0
General Assistant	6	6	0
E-natis Supervisor	1	1	0
E-natis Clerk	3	1	2
Pound Master	2	0	2
General Assistants	4	0	4
Librarian Assistants	2	2	0
Programmes Officer	1	0	1
Executive Secretary	2	2	0
<b>Total</b>	<b>41</b>	<b>26</b>	<b>15</b>

## BUDGET AND TREASURY

Approved positions	Number of approved and budgeted posts per position	Filled posts	Vacant posts
Accountant	1	1	0
Controller Expenditure	1	1	0
Controller Revenue	1	0	1
Controller Budget	1	1	0
Supply Chain Management Officer	1	0	1
Information Technology Officer	1	1	0
Asset Management Clerk	1	0	1
Logistic / Procurement Clerk	1	0	1
Senior Clerk (Income)	1	1	0
Credit Controllers	2	2	0
Meter Reader	3	3	0
Principal Clerk / Expenditure	1	1	0
Cashiers	2	2	0
Controller Budget (Clerk)	1	0	1
<b>Total</b>	<b>18</b>	<b>13</b>	<b>5</b>

## Staff complement in the technical services

### Technical staff registered with professional bodies

Technical Service (e.g water, electricity etc...)	Total number of technical service Managers	Total number registered in the accredited professional body	Total number pending registration confirmation in the accredited professional body	Total number not yet registered in the accredited professional body
Electricity	2	2	0	0
Building Inspector	1	1	0	0
<b>Total</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>0</b>



**(b) Staff levels of education and skills**

Total number of staff	Number of staff without Grade 12	Number of staff with Senior Certificate only	Number of staff with Tertiary/accredited professionals training
125	65	35	25

**(c) Trends on total personnel expenditure**

Financial Years	Total number of staff	Total approved operating Budget	Personnel expenditure (salary and salary related)	Total actual expenditure	Percentage of actual personnel expenditure to total expenditure
2007-2008	143	12 240 000	12 302 611	22 132 453	55.6
2008-2009	148	16 474 760	15 047 480	30 289 694	49.7
2009-2010	150	38 745 433	17 576 069	30 926 875	56.5
2010-2011	150	53 654 138	17 826 030	41 078 039	43.4

**(d) List of pension and medical aids to whom employees belong (please add if necessary)**

Names of pension fund	Number of members	Names of medical Aids	Number of members
Cape Joint	23	LA Health	8
SALA	47	Hosmed	1
SAMWU Provident Fund	34	SAMWU Med	18
Municipal Employees Pension Fund	3	Bonitas	16
		Keyhealth	3
		LAMAF	3

#### 1.4 Senior officials' wages and benefits (even if included in the financial statements);

	Municipal Manager	Technical Services Manager	Chief Financial Officer	Corporate services Manager
Annual Remuneration	344 502.00	194 935.32	193 710.00	133 837.00
Transport Allowance	167 224.56	-	-	-
Other	68 814.48	230 858.68	293 721.00	97 544.00
<b>TOTAL</b>	<b>580 541.00</b>	<b>425 794.00</b>	<b>487 431.00</b>	<b>231 381.00</b>

#### 1.5 Annual performance as per key performance indicators in municipal transformation and organizational development

	Indicator name	Total number of people (planned for) during the year under review	Achievement level during the year under review	Achievement percentage during the year	Comments on the gap
1	Vacancy rate for all approved and budgeted posts;	100%	6	66,6%	No suitable applicant could be obtained when the posts were advertised. Re-advertisement was made and the selection process could not be finalised as at the end of the financial year under review.
2	Percentage of appointment in strategic positions (Municipal Manager and Section 57 Managers)	100%	0	0%	Comment given above, applies in this case as well.
3	Percentage of Section 57 Managers including Municipal Managers who attended at least 1 skill development training course within the FY	100%	3	75%	The post of the Manager; Corporate Services was vacant during the better part of the financial year.
4	Percentage of Managers in Technical Services with a professional qualification	0%	N/A	N/A	N/A
5	Percentage of municipalities within the district area that have a fully functional Performance Management System (DM only)	N/A	N/A	N/A	N/A

6	Percentage of staff that have undergone a skills audit (including competency profiles) within the current 5 year term	100%	125	100%	N/A
7	Percentage of councillors who attended a skill development training within the current 5 year term	100%	8	100%	N/A
8	Percentage of staff complement with disability	1	1	1%	No EEP targets during the financial year under review. However, the municipality has developed the EEP with targets and it has been adopted by the council and as such it will be implemented during the ensuing financial year.
9	Percentage of female employees	2%	7	5.6%	
10	Percentage of employees that are aged 35 or younger	37%			

# Chapter 2



## Basic Service Delivery

## Chapter 2: Basic Service delivery performance highlights (KPA 2)

### 2.1 Water services

Water authority and provision rest with the District Municipality. The Municipality does not have information regarding performance in this area.

### 2.2 Electricity services

Key Performance Area	Key Performance Indicator	Baseline	2009 / 10 Performance	Target	Actual	Explanation for variance
Provision of highmast phase 2, revenue enhancement and maintenance of municipal grid	Number of highmast lights erected	13	0	7	None	No capital budget approved by MIG funding
	% of decrease on illegal connections	30%	5%	20%	5%	Lack of electrical inspectors
	Number of staff appointment for maintenance of municipal grid	2	0	2	0	Lack of budget

## 2.3 Sanitation

The IDP records the following information regarding sanitation reticulation in Nxuba of which the most concern is that 45% of residents are using a bucket system, 10% use pit latrines and 11% have no sanitation service.

### SANITATION RETICULATION

AREA	TYPE
Adelaide town	100% waterborne sewerage
Bezuidenhoutville	100% waterborne sewerage
Lingeletu ( old & new)	40% bucket system
Bedford town	100% waterborne sewerage
Goodwin park	95% waterborne sewerage
Nyarha	60% waterborne sewerage
Rural	70% bucket system

### SANITATION TYPE DISTRIBUTION

TYPE	NO. OF HOUSEHOLDS	PERCENTAGE
Full waterborne	2077	33,0
Pit latrine	622	10.0
Bucket system	2628	45.0
None	1215	11.9
Unspecified	6	0.1
Total	6548	100.0

There is no indicated problem in the IDP regarding the capacity of the sewerage treatment works to handle increased effluent loads as extended water borne reticulation is introduced.

## 2.4 Road Maintenance

Key Performance Area	Key Performance Indicator	Baseline	2009 / 10 Performance	Target	Actual	Explanation for variance
Facilitate provision of quality roads	Number of kilometers constructed	5km	3.8km	4km	4km	
	Established system	0	0	1	0	

## 2.5 Waste management

Waste management services delivery strategy and main role-players

- DEDEAT
- ADM

Key Performance Area	Key Performance Indicator	Baseline	2009 / 10 Performance	Target	Actual	Explanation for variance
To have licensed waste sites	Number of sites licensed	1		1	IWMP developed and submitted to MEC for comments	No comments received from the MEC
Keep towns and townships cleans	Number of equipment procured	0		2	Daily cleansing is taking place	Still to develop forms for prop

### CHALLENGES

Old fleet  
Backlogs  
Shortage of skilled personnel  
Unlicensed dumping site

### MITIGATION

Repairs for old fleet  
Purchase of new refuse compactor truck  
Educate people or personnel on managing landfill sites  
Solicit funding from DEDEAT for the licensing of Adelaide dumping site

## 2.6 Housing and town planning

Annual performance as per key performance indicators in housing and town planning services

Key Performance Area	Key Performance Indicator	Baseline	2008 / 09 Performance	Target	Actual	Explanation for variance
Facilitation of housing for approved beneficiaries and completion of unfinished projects	Number of applications approved	600		300	Attendance register forms	
	Number of transferred properties	400		110	Beneficiary List	
	Number of houses built	600		1 000	0	

There has been a disruption in the rendering of a town planning service to the municipality due to constant changing of persons in charge of the municipal land use management service. This has resulted in a number of aspects being overlooked and there are a number of challenges regarding informal land uses within the urban area and the semi-rural municipal commonage.

Major challenges in housing and town planning services and remedial actions

A major challenge facing the housing department is that of understaffing. One housing officer that has to undertake all housing related tasks.

The town planning department is also understaffed. It is desirable that the department could be divided into two sections in order to have one dealing with land use regulation and related matters and the other to deal with land administration aspects. These would include the land sales and letting of municipal land.

The land use regulation tool-which is the Black Communities Development Act, Act 4 of 1984 - is an out-dated piece of legislation including the regulations which are vague and regarded as no longer relevant. The converting and upgrading of land tenure of this area from BCDA to LUPO area should occur in order to have uniform land use management procedures.

It should be however born in mind that the Spatial Planning and Land Use Management Bill 2011 could become enacted by July 2012 (*DRDLR given till this time to enact the bill*). This will have implications regarding land use management and therefore it could be advantageous to convert the BCDA area and upgrade the land tenure type from leasehold to full comprehensive ownership once this act is in place.



The compilation of a new updated zoning scheme is required. Either this can happen once the BCDA areas have been converted or be conducted at the same time.

There are informal settlements that need to be formalised and or Greenfield's development projects that are aimed at providing formal shelter for individuals qualifying for subsidised housing.

There is an informal use activity occurring within the municipal commonage in the form of brick-making activities. There are also a number of co-operative projects that include community gardens, poultry and piggery projects. We need to ensure that the projects comply with health guidelines and a formal lease agreement needs to be established with all of the participants, guidelines and a formal lease agreement needs to be established with all of the participants, reasoning being that when the projects are no longer active, the rights to use the land may be retracted by the municipality.

There would need to be an agreement between the project owners and the affected parties as well as those that provide the funding (Dept of Social Development) to come to a solution regarding any unused infrastructure associated with the land use activity e.g. poultry structure, mini-dams, etc because experience shows that this infrastructure is prone to being vandalised and uprooted and so that the land and infrastructure no longer being used may be used by new, aspiring project owners.

The brick-making activity is to be formalised through a joint venture between the brick-makers and the relevant government departments.

Internal communication channels should be improved especially regarding applications for development or land use activity. For example, town planning applications should be circulated to the varying line function departments for comment. This will result in the municipality providing uniform and consistent decision making.

### **Land use management:**

The land use management office seeks to ensure that land owners comply with the land use management mechanisms. These mechanisms are the General Regulations No. 1897 of 1986 under the Black Community Development Act, Act 4 of 1984 and the Section 8 Scheme Regulations under the Land Use Planning Ordinance.

The BCDA, Act 4 of 1984 is applicable to the Nyarha and Lingeletu Townships (both old and new). The LUPO 15 of 1985 is applicable to the remaining urban area in Bedford and Adelaide.

There is a proposal that there should be a Land Use Management Policy to be developed by the Land Use Management Office.

# Chapter 3



## Local Economic Development

## CHAPTER 3: MUNICIPAL LOCAL ECONOMIC DEVELOPMENT FRAMEWORK- (KPA 3)

### 3.1 Brief presentation of LED strategy / plan

- Nxuba Local Municipality does not have its own LED Strategy but has adopted the Amathole Regional Economic Development Strategy (AREDS).
- The focus of the AREDS is growth and economic development. This does not imply that poverty alleviation and social safety net activities should be abandoned or neglected. However, these are specifically covered in this sector plan. Actions which align with poverty alleviation and social safety net actions, but which are necessary for economic growth, are presented in this strategy but are not fleshed out or programmed in detail. This includes aspects such as health, education, safety and security.
- The purpose of the AREDS study is to provide a framework that will guide the multiple economic role players in the Amathole District when planning and undertaking interventions that impact on the economic development of the district.
- The purpose of the Amathole Regional Economic Development Strategy is to increase the number of households that earn an income from employment and to increase the income per household to be above the minimum living level. The former aspect provides a quantitative measure and the latter a qualitative measure.
  - Setting up an LED expertise
- During the financial year the Department of Local Government funded an additional personnel (LED Assistant). The Municipality has now two people in the LED section.
  - The availability of LED expertise
- The current LED Official has a certificate in Local Economic Development and a certificate in Local Government Law and Administration. Currently the incumbent is undergoing training in Local Economic Development that is conducted by Thina Sinako.
  - LED stakeholder forum functionality
- LED stakeholder forums are being held quarterly but the focus is on focus groups such as Local Contractors, Agricultural Forums as well as SMME's.
  - Funding opportunities of LED activities
- Institutions that have been active in funding LED activities are the following
- Department of Social Development (Socdev) : Food Security Projects and other SMME's
- Department of Agriculture (DoA): Siyazondla (give out agricultural inputs like seed, seedlings and trees to communities), Comprehensive Agricultural Support Programme (CASP) (fencing of commonages, construction of dipping tanks, water troughs), funding of piggery, poultry, goats and bringing-in of bulls for livestock improvement.
- National Development Agency(NDA): funding for co-operatives, Non-profit Organisations (NPO's), Non- Governmental Organisations (NGO's)
  - Department of Economic Development and Economic Affairs (DEDEA): funding of co-operatives and projects. It also conducts small business seminars, workshops for small business and awareness workshops.

- Department of Roads and Transport (DoRT): funding of poverty alleviation programs such as the household contractor programme
- Department of Recreation Sports Arts and Culture (DSRAC): of a number of social development programs such as sport programs, art programs.
- Office of the Premier (OTP) : agricultural learnership

### **3.2. Progress towards achieving the LED key objectives:**

#### **Improve public and market confidence**

- Spatial development framework(SDF)/Land Use Management System(LUMS)
- The municipality has a spatial development framework that informs all other plans.
- Red tape reduction: Turn-around time for licensing and other business related applications
- Nxuba Local municipality is a plenary type of a municipality and have council and Standing Committee meetings/ sittings bi-monthly.

#### **Investment and trading by-laws**

- Trading by-laws were developed and gazetted and another trading by-law is being sent to the province for promulgation.  
Provision and maintenance of quality and reliable infrastructure
- Nxuba Local Municipality has begun the process of paving its streets, giving priority to streets that would lead to economic development

#### **Disaster Management**

- Nxuba Local Municipality has a fully equipped disaster management centre which is manned by the Disaster Management Officer. The forum is established and is a representative of the population of the area. The disaster management is run concurrently with fire fighting with assistance from one fire fighting volunteer.

#### **Disaster Management Awareness Campaigns**

- The Disaster Management and Fire Awareness Campaigns were held in Nxuba Local Municipality to Communities and schools
- The Amathole District Municipality and World Vision arranged a disaster Management workshop for stakeholders at Katberg Hotel. The workshop was attended by Sector Departments, ADM, Nxuba and Ngqushwa Municipalities.

The purpose of the workshop was to clarify the roles and responsibilities of all stakeholders in disaster management. In the workshop it was resolved that all municipalities must establish technical task teams that will work hand in gloves when disaster strikes.

### Disaster Management Advisory Forum meetings

The Disaster Management meetings were held quarterly in Nxuba Local Municipality and were well attended by the Department of Safety & Liaison, Amathole District Municipality, Sector Departments, and Hospitals within the Municipality, Councillors, Ward Committees, Community Development Workers, and Metro Emergency Services.

- Exploit comparative and competitive advantage for industrial activities

There are no industries in Nxuba but for the two factories (Game Zone and Eagle Hout) efforts are made to ensure efficient and effective service to ensure the retention of existing business.

- Intensify enterprise support and business development

Business registration is conducted by SEDA, DEDEA and Umsobomvu Youth Fund/Comsec. Small business seminars are conducted by DEDEA and Umsobomvu Youth Fund/Comsec. More than thirty (30) SMME's were established. Employment opportunities are experienced through paving of our streets funded by Municipal Infrastructure Grant (MIG).

### Annual performance as per key performance indicators in LED

	Indicator name	Target set for the year	Achievement level during the year (absolute figure)	Achievement percentage during the year
1	Percentage of LED Budget spent on LED related activities.	R283 500	R236 729	84.6%
2	Number of LED stakeholder forum held	4	3	75%
3	Percentage of SMME that have benefited from a SMME support program	40	40	100%
4	Number of job opportunities created through EPWP	300	353	117.7%
5	Number of job opportunities created through PPP	-	-	-

### **3.3 Challenges regarding LED strategy implementation**

- Nxuba Local Municipality does not have a fully-fledged LED unit as it has two officials responsible for local economic development.
- There is little funding that has been budgeted by the municipality making it difficult to implement development projects
- Capacity challenges are greatly experienced in the section



# Chapter 4



## Municipal Financial Viability

## Chapter 4: MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT (KPA 4)

### 4.1 The audited financial statements

#### General Information

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<b>Legal form of entity</b>	Municipality
<b>Mayoral committee</b>	
Mayor	Mrs L.L. Bruintjies (speaker called mayor)
Councillors (Current)	Mrs C.A Auld Mr G. De Lange Mr P. Jack Mr E. Lombard Mr Q.P Maloni Ms B.P Mentoer Mr S.A Ndyambo
Councillors 2006 – May 2011	M. Mana T.Ngetu Z. Maseti M.E Makenyane E.M Mnqamisa L.N Mdlungu W. Mahleza
<b>Grading of local authority</b>	Grade 1
<b>Accounting Officer</b>	Mr M.Bongco
<b>Chief Finance Officer (CFO)</b>	Mr R Dolonga
<b>Registered office</b>	Adelaide
<b>Business address</b>	Market Square Adelaide 5760
<b>Postal address</b>	Private Bag X350 Adelaide 5760
<b>Bankers</b>	ABSA, Adelaide First National Bank, Adelaide
<b>Auditors</b>	Auditor General of South Africa



## Index

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Accounting Policies	8 - 19
Notes to the Annual Financial Statements	20 - 39

## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer is responsible for the preparation of these annual financial statements, which are set out on pages 4 to 39, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

The accounting officer certifies that the salaries, allowances and benefits of Councillors and payments made are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act as disclosed in note 24.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 4 to 39, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

**Mr M.Bongco**

**31 August 2011**

## Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
<b>Assets</b>			
<b>Current Assets</b>			
Investments	3	14,000	47,498
Trade and other receivables from exchange transactions	4	13,424,205	5,113,856
Other receivables from non-exchange transactions	5	4,847,823	5,494,346
VAT receivable	6	2,669,241	193,149
Prepayments	7	1,217,388	41,092
Call investments	8	3,329,987	3,320,457
Suspense accounts		602,811	-
Cash and cash equivalents	9	3,000,131	568,048
		<b>29,105,586</b>	<b>14,778,446</b>
<b>Non-Current Assets</b>			
Investment property	10	359,602	359,602
Property, plant and equipment	11	41,189,696	42,580,021
Intangible assets	12	19,277	19,277
		<b>41,568,575</b>	<b>42,958,900</b>
<b>Total Assets</b>		<b>70,674,161</b>	<b>57,737,346</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Operating lease liability	13	31,189	57,811
Trade and other payables from exchange transactions	14	4,550,477	8,206,744
Consumer deposits	15	896,936	347,083
Unspent conditional grants and receipts	16	11,107,483	2,960,950
Leave pay accrual	17	1,066,930	1,020,380
Bank overdraft	9	-	610,328
		<b>17,653,015</b>	<b>13,203,296</b>
<b>Total Liabilities</b>		<b>17,653,015</b>	<b>13,203,296</b>
<b>Net Assets</b>		<b>53,021,146</b>	<b>44,534,050</b>
<b>Net Assets</b>			
Accumulated surplus		53,021,146	44,534,050

## Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
<b>Revenue</b>			
Property rates	19	2,600,131	2,579,359
Service charges	20	16,479,813	16,134,525
Rental of facilities and equipment		131,241	114,878
Fines		13,624	5,640
Licences and permits		1,550,872	1,331,332
Government grants & subsidies	21	24,462,820	23,990,280
Other income	22	3,561,475	2,785,115
Interest received - investment	23	2,391,243	3,607,132
<b>Total Revenue</b>		<b>51,191,219</b>	<b>50,548,261</b>
<b>Expenditure</b>			
Employee costs	24	16,522,811	16,511,687
Remuneration of councillors	25	1,303,219	1,064,382
Finance costs	26	481,530	-
Repairs and maintenance		281,713	308,235
Bulk purchases	29	12,787,127	9,670,193
Contracted services	30	-	81,158
Grants and subsidies paid	31	1,359,430	4,233,106
General Expenses	32	12,894,242	15,588,412
<b>Total Expenditure</b>		<b>45,630,072</b>	<b>47,457,173</b>
<b>Surplus for the year</b>		<b>5,561,147</b>	<b>3,091,088</b>

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	50,908,305	50,908,305
Adjustments		
Fundamental errors affecting net assets see note 36	(9,465,343)	(9,465,343)
<b>Balance at 01 July 2009 as restated</b>	<b>41,442,962</b>	<b>41,442,962</b>
Changes in net assets		
Surplus for the year	3,091,088	3,091,088
Total changes	3,091,088	3,091,088
<b>Balance at 01 July 2010</b>	<b>47,459,999</b>	<b>47,459,999</b>
Changes in net assets		
Surplus for the year	5,561,147	5,561,147
Total changes	5,561,147	5,561,147
<b>Balance at 30 June 2011</b>	<b>53,021,146</b>	<b>53,021,146</b>

## Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Interest income		2,391,243	3,607,132
<b>Payments</b>			
Suppliers		5,466,684	3,500,163
Finance costs		(481,530)	-
		4,985,154	3,500,163
<b>Undefined difference compared to the cash generated from operations note</b>		<b>2,609,041</b>	<b>(610,328)</b>
<b>Net cash flows from operating activities</b>	33	<b>9,985,438</b>	<b>6,496,967</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	11	(7,086,739)	(3,943,798)
Proceeds from sale of property, plant and equipment	11	722,555	621,567
Purchase of other intangible assets	12	-	(15,263)
Proceeds from sale of financial assets		33,498	(47,498)
Purchase of call investments		(9,530)	(3,320,457)
Suspense		(602,811)	-
<b>Net cash flows from investing activities</b>		<b>(6,943,027)</b>	<b>(6,705,449)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3,042,411</b>	<b>(208,482)</b>
Cash and cash equivalents at the beginning of the year		(42,280)	166,202
<b>Cash and cash equivalents at the end of the year</b>	9	<b>3,000,131</b>	<b>(42,280)</b>

# Accounting Policies

## 1. Presentation of Annual Financial Statements

These Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand. They have been prepared in terms of Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003) in accordance with the Accounting Standards prescribed by the Minister of Finance in terms of Government Gazette number 31021, Notice Number 516, dated 9 May 2008 and also in terms of the standards and principles contained in Directive 4 issued by the ASB in March 2009.

The Accounting Framework of the municipality, based on the preceding paragraphs and applicable to the operations of the municipality, is therefore as follows:

GRAP 1	Presentation	of	Financial	Statements
GRAP 2	Cash	Flow	Statements	
GRAP 3	Accounting Policies,	Changes in	Accounting Estimates	and Errors
GRAP 9	Revenue	from	Exchange	Transactions
GRAP 12	Inventories			
GRAP 13	Leases			
GRAP 16	Investment			property
GRAP 17	Property,	Plant	and	Equipment
GRAP 19	Provisions,	Contingent	Liabilities	and
GRAP 25	Employee			Contingent
GRAP 102				Assets
GRAP 104	Financial	Instruments:	Intangible	Assets
				Disclosures

The standards prescribed are the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board. The impact of the mentioned directives on the financial statements, specifically Directive 4, is disclosed in the various accounting policies below.

### 1.1 Significant judgements and sources of estimation uncertainty

In preparing the Annual Financial Statements, management is required to make estimates and assumptions that affect the amounts represented in the Annual Financial Statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the Annual Financial Statements. Significant judgements include:

#### Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

#### Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

# Accounting Policies

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## 1.2 Investment property

### Recognition

Investment property should be recognised as an asset by the municipality when it is probable that the future economic benefits or service potential that are associated with the property will flow to the municipality, and the cost or fair value of the property can be reliably measured.

### Initial measurement

Investment property is initially measured at cost, including transaction costs. Where an investment property is acquired at no cost, or for nominal cost, its cost is its fair value as at the date of acquisition. Such cost should not include start-up costs, abnormal waste, or initial operating losses incurred before the investment property achieves the planned level of occupancy.

### Subsequent measurement

The municipality is implementing GRAP for the first time and has taken Directive 4 exemption applicable for the first three years of initial adoption of GRAP to Low Capacity Municipalities. The effect of this is that assets are not depreciated or assessed for impairment in the first three years. Progress towards full compliance with the requirements of GRAP 16 will be disclosed in the Annual Financial Statements for the next three years. The municipality is undergoing a process of implementing a full GRAP compliant fixed asset register and it is expected to be finalised by the end of 2010/2011 financial year.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

## 1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.



## Accounting Policies

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### 1.3 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Capital work in progress is work that has not been completed but has already incurred a capital investment from the municipality.

This is usually recorded as an asset on the balance sheet. Work in progress indicates any good that is not considered to be a final product, but must still be accounted for because funds have been invested toward its production. Depreciation is not accounted for until the capital work in progress is reclassified as an asset.

#### Transitional provisions

According to the transitional provisions as per Directive 4 of the GRAP Reporting Framework, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 11. The transitional provision expires on 30 June 2012.

Until such time as the measurement period expires property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment.

#### De-recognition

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### 1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

# Accounting Policies

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## 1.4 Intangible assets (continued)

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

### Transitional provisions

According to the transitional provisions as per Directive 4 of the GRAP Reporting Framework, the municipality is not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible assets. Intangible Assets has accordingly been recognised at provisional amounts, as disclosed in 12. The transitional provision expires on 30 June 2012.

Until such time as the measurement period expires and intangible assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Intangible assets implies that any associated presentation and disclosure requirements need not be complied with for intangible assets..

## 1.5 Heritage assets

Assets are resources controlled by a municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

# Accounting Policies

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## 1.6 Financial instruments

### Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the municipality has the intention and ability to hold the asset for the foreseeable future or until maturity.

### Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

### Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

# Accounting Policies

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## 1.6 Financial instruments (continued)

### Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

### Financial instruments designated as available-for-sale

Available for sale investments are financial assets that are designated as available for sale or are not classified as:

- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial Assets at fair value through the Statement of Financial Performance.

### Loans to managers and employees

These financial assets are classified as loans and receivables.

### Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Cash and cash equivalents

Cash and cash equivalents comprises of cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

#### Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

#### Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

#### Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

#### Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

## Accounting Policies

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### 1.7 Leases (continued)

In terms of Directive 4 of the GRAP Reporting Framework the municipality is not required to recognise finance lease assets/liabilities in the financial statements in relation to those Property, plant and equipment that have not been recognised as a result of applying the transitional provisions in the Standards of GRAP related to Property, plant and equipment.

The disclosure requirements included in the Standard of GRAP on Leases were applied insofar as the lease assets/liabilities have been identified.

No measurement adjustments were made for the year ending 30 June 2011. The future lease commitments not disclosed in the financial statements for the year ending 30 June 2010 are now however disclosed in these financial statements. Please refer to note 13 for the details to future lease commitments.

It is anticipated that the requirements of the Standard of GRAP on Leases will be applied in the financial statements for the year ending 30 June 2010 when the transitional provisions in the Standards of GRAP on Property, Plant and Equipment expire.

### 1.8 Employee benefits

Employee benefits are all forms of consideration given by a municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- a municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programs are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not considered in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from a municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

### 1.9 Provisions

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

## Accounting Policies

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### 1.9 Provisions (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

### Transitional provisions

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, where provisions, contingent liabilities and contingent assets were acquired through a transfer of functions, the municipality is not required to measure that provisions, contingent liabilities and contingent assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality did not acquire any transfer(s) of function in 2011 and provisions, contingent liabilities and contingent assets have been accordingly recognised at provisional amounts, as disclosed in 17.

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets are recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the municipality need not comply with the Standards of GRAP on:

- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets.

### 1.10 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

# Accounting Policies

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## 1.10 Revenue from exchange transactions (continued)

### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

## 1.11 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

### Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.



## 1.11 Revenue from non-exchange transactions (continued)

### Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

### Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

## 1.12 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

## 1.13 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

## 1.14 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### **1.15 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### **1.16 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.17 Use of estimates**

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

#### **1.18 Presentation of currency**

These annual financial statements are presented in South African Rand which is the functional currency of the municipality.

#### **1.19 Conditional grants and receipts**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

#### **1.20 Value added tax**

Value added tax(VAT) in the municipality is recognised on the invoice basis.

The municipality submits its VAT returns timeously and accurately in accordance with all VAT related legislation. Furthermore general operational procedures should be in place to ensure the effective and efficient working of VAT related administration.

**Any VAT due or receivable by the municipality at financial year end will result in a VAT related creditor or debtor that needs to be disclosed in the Annual Financial Statements. Along with these balances, information regarding the VAT registration basis of the municipality should be disclosed in the Annual Financial Statements.**

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>2. Inventories</b>		
<b>3. Investments</b>		
<b>Available-for-sale</b>		
ABSA - J KORKIE (VOLKSKAS BANK)	14,000	14,000
ABSA - JB MARAIS (ALLIED BANK)	-	17,741
ABSA - JH ERASMUS (UNITED BANK)	-	15,757
These investments are held as securities for bonds over properties purchased by municipal staff.		
	<b>14,000</b>	<b>47,498</b>
<b>Current assets</b>		
Available-for-sale	14,000	47,498
<b>4. Trade and other receivables from exchange transactions</b>		
Trade debtors	13,424,205	5,113,856
<b>Reconciliation for trade and other receivables</b>		
Gross trade and other receivables	21,477,110	16,402,358
Provision for impairment	(15,938,324)	(11,288,502)
	<b>5,538,786</b>	<b>5,113,856</b>
<b>Trade and other receivables impaired</b>		
The amount of the provision was R (15,938,324) as of 30 June 2011 (2010: R (11,288,502)).		
The ageing of these debtors is as follows:		
Current (0 - 30 days)	2,212,843	703,439
31 - 60 days	880,442	499,121
61 - 90 days	1,291,632	594,278
91 - 120 days	17,092,193	14,605,520
<b>5. Other receivables from non-exchange transactions</b>		
Other receivables from non-exchange revenue	4,847,823	5,494,346
<b>Reconciliation for other receivables from non-exchange transactions</b>		
Gross receivables from non-exchange transactions	18,447,580	17,215,137
Provision for impairment	(13,706,107)	(11,720,791)
	<b>4,741,473</b>	<b>5,494,346</b>
<b>Other receivables from non-exchange transactions impaired</b>		
The amount of the provision was R (13,706,107) as of 30 June 2011 (2010: R (11,720,791)).		
The ageing of these debtors is as follows:		
Current (0 - 30 days)	498,648	197,398
31 - 60 days	454,643	128,327
61 - 90 days	439,030	160,585
91 - 120 days	17,055,259	16,728,828

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## 5. Other receivables from non-exchange transactions (continued)

### Reconciliation of provision for impairment of other receivables from non-exchange transactions

Opening balance	23,009,293	28,099,877
Provision for impairment	6,635,138	(2,450,557)
Amounts written off as uncollectible	-	(2,640,027)
	<b>29,644,431</b>	<b>23,009,293</b>

The impairment of debtors was calculated based on the percentage obtained on the non-collection rate. The amount calculated is considered to be reasonable based on assessment of the age and category of the debtors. The provision for impairment will not be provided for government related debtors (i.e CO Councillors, GV Government, M Municipal, MS Municipality Staff) as these debtors are considered to be recoverable. As the debtors are still employees of the government and the amounts owed can be recovered from their salaries. Unemployment rate estimated to be over 70% within the Municipality. There is no proper indigent recognition criteria and all assumptions made in the above provision do not take into consideration the indigent list.

The process of identifying indigent debtors is currently underway.

For further details on Debtors refer to Annexure A.

## 6. VAT receivable

VAT	2,669,241	193,149
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VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

## 7. Consumer debtors

### Gross balances

Rates	1,216,240	39,944
Housing rental	1,148	1,148
	<b>1,217,388</b>	<b>41,092</b>

### Net balance

Rates	1,216,240	39,944
Housing rental	1,148	1,148
	<b>1,217,388</b>	<b>41,092</b>

### Rates

Current (0 -30 days)	39,944	39,944
Undefined Difference	1,176,296	-
	<b>1,216,240</b>	<b>39,944</b>

### Housing rental

Current (0 -30 days)	1,148	1,148
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## 8. Call investments

Unspent conditional grants and receipts	1,695,646	3,201,432
Unspent unconditional grants and receipts	15,044	119,025
	<b>1,710,690</b>	<b>3,320,457</b>

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### 8. Call investments (continued)

These investments are in respect of unspent conditional and unconditional grants from call accounts balances.

### 9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,668	668
Bank balances	2,998,463	567,380
Bank overdraft	-	(610,328)
	<b>3,000,131</b>	<b>(42,280)</b>
Current assets	3,000,131	568,048
Current liabilities	-	(610,328)
	<b>3,000,131</b>	<b>(42,280)</b>

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
FNB BANK - Account number 51640011783	2,692,632	627,363	33,355	2,260,982	628,890	33,355
ABSA BANK - Account number 9198592469	443,157	65,358	130,373	443,157	65,358	130,373
ABSA BANK - Account number 9074038460	4,234	4,289	1,806	4,234	4,289	1,806
ABSA BANK - Account number 2360000012	717,085	-	-	717,085	(610,327)	-
ABSA BANK - Cheque account 4055145556	69,031	-	-	69,031	479,170	-
<b>Total</b>	<b>3,926,139</b>	<b>697,010</b>	<b>165,534</b>	<b>3,494,489</b>	<b>567,380</b>	<b>165,534</b>

### 10. Investment property

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	359,602	-	359,602	359,602	-	359,602

#### Reconciliation of investment property - 2011

	Opening balance	Total
Investment property	359,602	359,602

#### Reconciliation of investment property - 2010

	Opening balance	Total
Investment property	359,602	359,602

## Notes to the Annual Financial Statements

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### 10. Investment property (continued)

Investment property is reported at provisional amounts R 359,602 (2010 : R 359,602), due to the fact that the initial accounting for Investment property was subject to directive 4 for the reporting period in which the Standard became effective.

It is expected that the measurement of investment property will be addressed in conjunction with efforts related to Property, plant and equipment which are expected to be finalised by 30 June 2012.

Investment Property is in respect of various residential properties and a multiple use property which are Erf No. 1, 81, 84, 85, 86, 215, 264, 390, 1160, 1162 and 1164. The properties are all valued at cost in the financial statements. Their fair values as per the General Valuation report 1 July 2009 - 30 June 2013 are as shown below :

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### 10. Investment property (continued)

#### Details of property

##### Land - residential

ERF 1, Adelaide ext 20740000 SQM, Multiple use property

- Valuation amount:

4,600,000

4,600,000

##### Land - vacant residential property

ERF 81, Durban street, Bedford

- Valuation amount:

94,000

94,000

##### Land - vacant residential property

ERF 84, Baird street, Bedford

- Valuation amount:

40,000

40,000

##### Land - vacant residential property

ERF 85, Baird street, Bedford

- Valuation amount:

40,000

40,000

##### Land - vacant residential property

ERF 86, Landdonkin street, Bedford

- Valuation amount:

80,000

80,000

##### Land - vacant residential land

ERF 215, Baird street, Bedford

- Valuation amount:

150,000

150,000

##### Land- Residential property

ERF 264, Caledon street, Bedford

- Valuation amount:

76,000

76,000

##### Land- Residential property

ERF 390, Stockholm street, Bedford

- Valuation amount:

770,000

770,000

##### Land- Residential property

ERF 1160, Hope street, Bedford

- Valuation amount:

94,000

94,000

##### Land- Residential property

ERF 1162, C/O Hope & Bourke street, Bedford

- Valuation amount:

110,000

110,000

##### Land- Residential property

ERF 1164, Adderley street, Bedford

- Valuation amount:

110,000

110,000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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### 11. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1,586,496	-	1,586,496	1,586,496	-	1,586,496
Buildings	4,026,403	-	4,026,403	10,675,938	-	10,675,938
Plant and machinery	53,054	-	53,054	770,597	-	770,597
Furniture and fixtures	110,321	-	110,321	110,321	-	110,321
Motor vehicles	1,667,962	-	1,667,962	1,667,962	-	1,667,962
Office equipment	281,796	-	281,796	280,420	-	280,420
IT equipment	283,629	-	283,629	276,822	-	276,822
Infrastructure	22,389,607	-	22,389,607	22,389,610	-	22,389,610
Community	5,576,678	-	5,576,678	4,812,483	-	4,812,483
Artwork	8,337	-	8,337	3,325	-	3,325
Capital work in progress	5,204,378	-	5,204,378	-	-	-
Other property, plant and equipment	1,035	-	1,035	6,047	-	6,047
<b>Total</b>	<b>41,189,696</b>	<b>-</b>	<b>41,189,696</b>	<b>42,580,021</b>	<b>-</b>	<b>42,580,021</b>

### Reconciliation of property, plant and equipment - 2011

	Opening balance	Difference	Additions	Disposals	Total
Land	1,586,496	-	-	-	1,586,496
Buildings	10,675,938	(7,397,052)	747,517	-	4,026,403
Plant and machinery	770,597	-	-	(717,543)	53,054
Furniture and fixtures	110,321	(324,532)	324,532	-	110,321
Motor vehicles	1,667,962	-	-	-	1,667,962
Office equipment	280,420	-	1,376	-	281,796
IT equipment	276,822	(313,617)	320,424	-	283,629
Infrastructure	22,389,607	-	-	-	22,389,607
Community	4,812,483	-	764,195	-	5,576,678
Artwork	3,325	-	5,012	-	8,337
Capital work in progress	-	280,695	4,923,683	-	5,204,378
Other assets	6,047	-	-	(5,012)	1,035
	<b>42,580,018</b>	<b>(7,754,506)</b>	<b>7,086,739</b>	<b>(722,555)</b>	<b>41,189,696</b>



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### 11. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2010

	Opening balance	Difference	Additions	Disposals	Total
Land	1,586,496	-	-	-	1,586,496
Buildings	3,278,886	7,397,052	-	-	10,675,938
Plant and machinery	770,597	-	-	-	770,597
Furniture and fixtures	110,321	-	-	-	110,321
Motor vehicles	1,667,962	-	-	-	1,667,962
Office equipment	255,279	-	25,141	-	280,420
IT equipment	236,462	-	40,360	-	276,822
Infrastructure	18,511,313	-	3,878,297	-	22,389,610
Community	4,812,483	-	-	-	4,812,483
Artwork	3,325	-	-	-	3,325
Other assets	627,614	-	-	(621,567)	6,047
	<b>31,860,738</b>	<b>7,397,052</b>	<b>3,943,798</b>	<b>(621,567)</b>	<b>42,580,021</b>

The municipality is implementing GRAP for the first time and has taken Directive 4 exemption applicable for the first three years of initial adoption of GRAP to Low Capacity Municipalities. The effect of this is that assets are not depreciated or assessed for impairment in the first three years.

The following progress has been made to date:

All assets have been classified accordingly.

All additions have been recorded;

A provisional asset register has been uploaded on BAUD.

The employees have been trained on how to use BAUD.

#### Transitional provisions

##### Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 11, certain property, plant and equipment with a carrying value of R 41,261,225 (2010: R 35,182,969) were recognised at provisional amounts.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 12. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	19,277	-	19,277	19,277	-	19,277

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### 12. Intangible assets (continued)

#### Reconciliation of intangible assets - 2011

	Opening balance	Total
Computer software, other	19,277	19,277

#### Reconciliation of intangible assets - 2010

	Opening balance	Additions	Total
Computer software, other	4,014	15,263	19,277

The municipality is implementing GRAP for the first time and has taken Directive 4 exemption applicable for the first three years of initial adoption of GRAP to Low Capacity Municipalities. The effect of this is that assets are not depreciated or assessed for impairment in the first three years.

Progress made to date is documented in note 11.

### Transitional provisions

#### Intangible assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 12, certain intangible assets with a carrying value of R 19,277 (2010: R 19,277) was recognised at provisional amounts.

### 13. Operating lease liability

Straight lining of operating lease liability raised as a provision for rental agreements that the municipality has with Konica Minolta and Nashua for copiers, printers, scanners and faxes.

### 14. Trade and other payables from exchange transactions

Accruals	-	401,053
Amatole district municipality	1,593,954	33,418
Auditor general	3,111,493	2,134,412
Conlog	34,531	422,591
Eskom	2,149,397	2,999,563
Macbrick	-	1,194,354
Other payables	2,287	-
SALGA	631,003	487,224
Suspense accounts	(3,412,109)	-
Workmens' compensation fund	439,921	534,129
	<b>4,550,477</b>	<b>8,206,744</b>

### 15. Consumer deposits

Electricity	896,936	347,083
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Included in consumer deposits are deposits for rates. There is no interest attached to this and it has to be refunded to consumers.

## Notes to the Annual Financial Statements

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### 16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grants	3,754,770	2,601,089
Cemetery - Adelaide	-	1,053
Cemetery - Bedford	-	1,749
Finance Management Grant	19,209	99,995
Ndlovini Fund	-	1,562
Nxuba Electricity Account (NER)	-	5,846
Municipal Support	230,444	227,033
Nxuba Housing - 172 Zinc House	-	22,623
Unspent grant 37	8,146,533	-
<b>Undefined Difference</b>	<b>(1,043,473)</b>	<b>-</b>
	<b>11,107,483</b>	<b>2,960,950</b>

#### Movement during the year

Balance at the beginning of the year	2,960,950	1,991,077
Additions during the year	1,043,473	969,873
<b>Undefined Difference</b>	<b>7,103,060</b>	<b>-</b>
	<b>11,107,483</b>	<b>2,960,950</b>

#### Municipal Infrastructure Grants

Balance at the beginning of the year	2,601,089	1,808,582
Additions during the year	1,153,681	792,507
	<b>3,754,770</b>	<b>2,601,089</b>

#### Finance Management Grant

Balance at the beginning of the year	99,995	-
Additions during the year	-	99,995
Income recognition during the year	(80,786)	-
	<b>19,209</b>	<b>99,995</b>

#### Municipal Support

Balance at the beginning of the year	227,033	-
Additions during the year	3,411	227,033
	<b>230,444</b>	<b>227,033</b>

## Notes to the Annual Financial Statements

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### 17. Leave pay accrual

#### Reconciliation of leave pay accrual - 2011

	Opening Balance	Contributions to provision	Expenditure incurred during the year	Total
Leave provision	1,020,380	223,095	(176,545)	1,066,930

#### Reconciliation of leave pay accrual - 2010

	Opening Balance	Contributions to provision	Expenditure incurred during the year	Total
Leave provision	902,648	68,613	49,119	1,020,380

### 18. Revenue

Property rates	2,600,131	2,579,359
Service charges	16,479,813	16,134,525
Rental of facilities & equipment	131,241	114,878
Fines	13,624	5,640
Licences and permits	1,550,872	1,331,332
Government grants & subsidies	24,462,820	23,990,280
	<b>45,238,501</b>	<b>44,156,014</b>

#### The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	16,479,813	16,134,525
Rental of facilities & equipment	131,241	114,878
Licences and permits	1,550,872	1,331,332
	<b>18,161,926</b>	<b>17,580,735</b>

#### The amount included in revenue arising from non-exchange transactions is as follows:

##### Taxation revenue

Property rates	2,600,131	2,579,359
Fines	13,624	5,640

##### Transfer revenue

Levies	24,462,820	23,990,280
	<b>27,076,575</b>	<b>26,575,279</b>

### 19. Property rates

#### Rates received

Residential	2,600,131	2,579,359
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A general rate of R 0.0055 (2009: R 0.005) for commercial and farming rate R 0.0054 (2009: R 0.005) was applied to property valuations to determine assessment rates. Rebates of R 15,000 were granted to residential and state property owners. Rates are levied on an annual basis on property owners.

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### 20. Service charges

Reconnection fees - electricity	72,053	-
Sale of electricity	12,623,690	12,744,100
Solid waste	3,784,070	3,390,425
	<b>16,479,813</b>	<b>16,134,525</b>

### 21. Government grants and subsidies

Equitable share	12,935,983	13,192,453
Municipal infrastructure grant	3,662,527	4,909,083
Other government grants and subsidies	7,864,310	5,888,744
	<b>24,462,820</b>	<b>23,990,280</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R 55 (2010: R 84), which is funded from the grant.

#### Unspent grants

Balance unspent at beginning of year	2,960,950	2,960,950
Current-year receipts	1,043,473	-
<b>Undefined Difference</b>	<b>(1,043,473)</b>	<b>-</b>
	<b>2,960,950</b>	<b>2,960,950</b>

Conditions still to be met - remain liabilities (see note 16).

### 22. Other income

Ward committees	184,766	6,840
Accommodation	-	8,967
Commission motor registration	174,870	67,337
Pound fees	-	13,492
Burial fees	105,918	88,659
Sundry revenue	1,503,661	653,708
Lost books	59	-
Building plans	34,287	44,182
Clearance and valuation certificate	14,259	14,245
Provision for bad debts - reversal	1,244,918	1,887,685
Discounting for creditors	298,737	-
	<b>3,561,475</b>	<b>2,785,115</b>

### 23. Investment revenue

#### Interest revenue

Bank	43,849	56,587
Interest charged on trade and other receivables	2,347,394	3,550,545
	<b>2,391,243</b>	<b>3,607,132</b>

The amount included in Investment revenue arising from exchange transactions amounted to R 1,400,702.

The amount included in Investment revenue arising from non-exchange transactions amounted to R 946,692.

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## 24. Employee related costs

Basic	10,885,274	11,254,244
Bonus	850,062	604,707
Medical aid - company contributions	595,111	617,365
UIF	121,382	114,519
SDL	105,468	116,490
Other payroll levies	7,298	7,272
Post-employment benefits - Pension - Defined contribution plan	1,587,324	1,424,804
Travel, motor car, accommodation, subsistence and other allowances	585,475	581,850
Overtime payments	23,385	45,194
Housing benefits and allowances	36,885	39,914
	<b>14,797,664</b>	<b>14,806,359</b>

## Remuneration of municipal manager

Annual Remuneration	344,502	334,460
Travel, motor car, accommodation, subsistence and other allowances	236,039	222,956
	<b>580,541</b>	<b>557,416</b>

## Remuneration of chief finance officer

Annual Remuneration	210,788	194,647
Travel, motor car, accommodation, subsistence and other allowances	276,643	244,629
	<b>487,431</b>	<b>439,276</b>

## Remuneration of community services officer

Annual Remuneration	212,255	161,669
Travel, motor car, accommodation, subsistence and other allowances	213,539	175,951
	<b>425,794</b>	<b>337,620</b>

## Corporate and human resources (corporate services)

Annual Remuneration	133,837	189,309
Travel, motor car, accommodation, subsistence and other allowances	97,544	181,707
	<b>231,381</b>	<b>371,016</b>

## 25. Remuneration of councillors

Executive Mayor	19,106	431,604
Councillors	1,284,113	632,778
	<b>1,303,219</b>	<b>1,064,382</b>

## 26. Finance costs

Interest paid on electricity	481,530	-
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## 27. Auditors' remuneration

Fees	1,508,063	1,433,411
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### 28. Rental of facilities and equipment

#### Premises

Venue hire	60,006	48,514
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#### Facilities and equipment

Rental of facilities	70,310	66,364
Rental of equipment	925	-

**71,235**      **66,364**

**131,241**      **114,878**

### 29. Bulk purchases

Electricity	12,787,127	9,670,193
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#### Bulk purchases reconciliation

Electricity	13,275,332	9,942,646
Penalty	-	140,335
Interest	390,989	57,497

**13,666,321**      **10,140,478**

The amount of electricity purchased during the year under review in terms of Kilowatt units is 21,979,383kwh.

### 30. Contracted services

Security fees	-	81,158
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The service for security on the premises was cancelled in the prior period.

### 31. Grants and subsidies paid

#### Other subsidies

Capital replacement reserve	27,473	31,166
Finance management	806,003	326,207
General valuation	-	800
Inter-governmental	-	3,679
Municipal systems improvement	522,967	656,453
Performance management	2,987	-
Primary health	-	3,125,702
Roads	-	89,099

**1,359,430**      **4,233,106**

## Notes to the Annual Financial Statements

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<b>32. General expenses</b>		
Advertising	67,492	143,338
Agency payments	713,108	474,550
Assessment rates & municipal charges	-	287,785
Assets expensed	299,514	621,567
Auditors remuneration	1,508,063	1,433,411
Bank charges	(947,072)	96,300
Bedford garden festival	222,885	144,070
Cleaning	371	-
Community development and training	30,445	28,079
Computer expenses	410	-
Conferences and seminars	-	128,722
Consulting and professional fees	264,406	252,330
Consumables	992,266	478,985
Disposal of RDP houses	6,717,895	7,390,434
Entertainment	5,861	26,285
Fines and penalties	109,644	-
Fuel and oil	294,412	229,632
IDP review	22,840	24,452
IT expenses	13,247	106,428
Insurance	836,370	1,121,912
Lease rentals on operating lease	66,156	716,482
Motheo payment	-	214,000
Other	168,659	59,142
Postage and courier	173,569	135,563
Printing and stationery	192,031	267,319
Refuse	26,274	-
Restructuring	-	90,230
Royalties and license fees	26,710	99,819
Service charges-service of amperes	53,757	186,495
Software expenses	6,926	12,745
Subscriptions and membership fees	12,141	1,404
Telephone and fax	709,706	522,542
Tourism development	20,331	4,936
Training	72,497	30,099
Travel - local	213,328	259,356
	<b>12,894,242</b>	<b>15,588,412</b>



## Notes to the Annual Financial Statements

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### 33. Cash generated from operations

Surplus	5,561,147	3,091,088
<b>Adjustments for:</b>		
Movements in operating lease assets and accruals	(26,622)	57,811
Movements in provisions	46,550	1,020,380
Movement in tax receivable and payable	-	1,160,955
Reduction in provision for doubtful debts	(7,880,056)	625,556
Bank account not disclosed	(479,171)	(131,158)
Accounting for VAT	(487,408)	-
Discounting for creditors	(240,137)	-
<b>Changes in working capital:</b>		
Inventories	16,033,726	-
Trade and other receivables from exchange transactions	(8,310,349)	(5,113,856)
Other receivables from non-exchange transactions	646,523	(5,494,346)
Consumer debtors	(1,176,296)	(41,092)
Trade and other payables from exchange transactions	77,237	8,206,745
VAT	(2,476,092)	(193,149)
Unspent conditional grants and receipts	8,146,533	2,960,950
Consumer deposits	549,853	347,083
	<b>9,985,438</b>	<b>6,496,967</b>

### 34. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

• Infrastructure	6,602,929	1,419,682
• Community	295,982	-
• Other	339,392	-
	<b>7,238,303</b>	<b>1,419,682</b>

The committed expenditure relates to infrastructure and will be financed from the sources shown below:

##### The expenditure will be financed from:

- Government Grants	6,898,911	1,419,682
- Own resources	339,392	-
	<b>7,238,303</b>	<b>1,419,682</b>

#### Operating leases - as lessee (expense)

##### Minimum lease payments due

- within one year	268,853	306,281
- in second to fifth year inclusive	202,135	470,988
	<b>470,988</b>	<b>777,269</b>

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

# Notes to the Annual Financial Statements

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## 35. Contingencies

Litigation is in the process against the municipality relating to a dispute with a councillor who is seeking damages of R 150,000.

This refers to the appeal in the High Court of South Africa (Grahamstown), Case No.3930/09. Parties involved are Makhaya Mhaka & Others vs Fikile Ngqwebo. Councillor Fikile Ngqwebo was recalled by the political party. In response to this, the Municipality declared a vacancy and the Councillor was replaced. The Councillor sued the Municipality in order to be re-enstated as a Councillor and he won the case. The council decided to appeal and has now obtained the leave to appeal.

The municipality has a contingent liability arising from operating a landfill site for which they do not have a license for. The closure of waste sites is a listed activity in terms of the list of waste management activities that have, or are likely to have, a detrimental effect on the environment, (Notice 409, 2009), published in terms of section 19(1) of the National Environmental Management Waste Act, Act 58 of 2008. In light of this, the municipality has a contingent liability in relation to the rehabilitation of land fill sites within the municipality. There is uncertainty regarding the possible cash outflows or their timing. The liability does meet the recognition criteria for a contingent liability however the amount cannot be reliably estimated at reporting date.

## 36. Prior period errors

Other RDP houses were incorrectly classified as inventory. The RDP houses were constructed and distributed to beneficiaries of a housing programme at no consideration before the end of the 2009 financial year. The effect of the error is that inventory and opening accumulated surplus were overstated by an amount of R 8,070,600.

The provision for impairment of debtors calculation has been performed using a different methodology in current year; whereby debtor recovery rates were calculated for each service line, and an impairment calculated based on the non-recovery rate. Government, Municipal, Municipal employees, and Council debts were not impaired as these are deemed recoverable. As a result receivables were understated by R 7,880,057 (R 3,782,763 receivables from exchange transactions; R 4,097,294 receivables from non-exchange transactions). The effect of the change in calculation is that opening balance of debtors is increased by R 7,880,057 while there is a R 6,232,510 reduction in Bad Debts expense to nil. The remaining R 1,647,547 results in an increase in Other Income for prior year.

VAT input worth R 487,408 was not claimed on expenses incurred. As a result the claim from SARS was understated by R 487,408 and the expenditure accounts were overstated by the same amount. After adjustment the result in VAT payable has been reduced from R 294,259 to nil, while VAT receivable increased from nil to 193,149.

The correction of the error(s) results in adjustments as follows:

### Statement of financial position

Decrease in inventory	-	(8,070,595)
Bank account not previously disclosed	-	479,170
Trade payables from exchange transactions – discounting	-	240,137
Trade Receivables from Exchange Transactions - correction of estimate	-	3,782,763
Other receivables non-exchange transactions - correction of estimate	-	4,097,294
VAT receivable - correctly accounting for input VAT	-	193,149
VAT payable - correctly accounting for input VAT	-	294,259
Decrease in Opening Accumulated Surplus	-	(9,465,343)

### Statement of Financial Performance

Increase in Other Income	-	(1,887,685)
Increase in general expenses	-	7,583,192
Decrease in bad debts expense	-	(6,232,510)
Increase in employee costs	-	116,490

## 37. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

# Notes to the Annual Financial Statements

Figures in Rand

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## 37. Comparative figures (continued)

### Statement of financial position

Investments in the form of fixed deposits previously classified as a Non-current asset has now been reclassified as a current asset

14,000

47,498

## 38. Risk management

### Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

## 39. Going concern

We draw attention to the fact that at 30 June 2011, the municipality had accumulated deficits of R 53,021,146 and that the municipality's total assets exceed its liabilities by R 53,021,146.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 40. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure

481,530

99,860

This is in respect of penalties relating to license of the council vehicles that were not renewed on time (R 2,732), penalties paid to SARS for late VAT remittance (R 50,075), interest paid to SARS on the late VAT remittance (R 3,966), penalties paid to SARS for late PAYE, UIF and SDL remittances (R 56,837) and interest thereof (R 34,713).

This is in respect of interest expense attracted by the outstanding Audit fees and Eskom accounts amounting to R 51,862 and R 390,000 respectively.

## 41. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance

5,561,147

3,091,088

### Adjusted for:

Fair value adjustments

(298,737)

-

Increases / decreases in provisions

2,979,168

-

Write-off of inventory houses

6,716,887

-

Net interest received

(1,948,281)

-

Other adjustments

361,122

-

Variances per department

(7,579,131)

-

**Net surplus per approved budget**

**5,792,175**

**3,091,088**

## 42. Additional disclosure in terms of Municipal Finance Management Act

### Contributions to organised local government

Amount paid - current year

12,061

11,438

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
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### 42. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Audit fees

Opening balance	2,196,866	806,613
Current year subscription / fee	1,706,233	1,433,410
Amount paid - current year	(721,283)	(43,157)
	<b>3,181,816</b>	<b>2,196,866</b>

#### PAYE and UIF

Current year subscription / fee	1,556,414	1,231,235
Amount paid - current year	(1,241,445)	(1,231,235)
	<b>314,969</b>	<b>-</b>

#### Pension and Medical Aid Deductions

Current year subscription / fee	2,143,368	1,595,054
Amount paid - current year	(2,182,435)	(1,595,054)
	<b>(39,067)</b>	<b>-</b>

#### VAT

VAT receivable	<b>2,669,241</b>	<b>193,149</b>
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VAT output payables and VAT input receivables are shown in note 6 .

All VAT returns have been submitted by the due date throughout the year.

### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2011:

#### 30 June 2011

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
C.A Auld	1,258	8,075	9,333
A.D Bruntjies	421	6,745	7,166
G. De Lange	55	487	542
G.M Jack	267	3,196	3,463
S.A Ndyambo	417	6,688	7,105
Q.P Maloni	308	5,013	5,321
B.P Mentoer	196	6,393	6,589
	<b>2,922</b>	<b>36,597</b>	<b>39,519</b>

#### 30 June 2010

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
M. Mana	408	2,770	3,178
T.Ngetu	178	260	438
Z. Maseti	194	1,699	1,893
M.E Makenyane	411	-	411
C.A Auld	3,265	19,738	23,003
E.M Mnqamisa	139	550	689
L.N Mdlungu	123	449	572
W. Mahleza	122	468	590
	<b>4,840</b>	<b>25,934</b>	<b>30,774</b>

### 43. Uncertainty and major assumptions

These outstanding amounts could not be accurately verified due to the fact that the reconciliation of accounts within 3<sup>rd</sup> party payments has not been done on a regular basis

#### Impairment of debtors

For the purpose of calculating impairment of debtors we could not assess the impairment of individual debtor, however we have assumed that the risk profile of each major debtor is in line with the national treasury framework guides to municipalities. As such provision for debtors was determined on that basis.

#### Fair valuing of creditors

The fair value of creditors is determined based on the average number of creditors days at year end and the discount rate used to discount is the prime interest rate as determined by the Reserve bank.

#### Revenue

##### Fines

Revenue from fines is assumed not to be material thus it was not deemed necessary to calculate the estimated amount of outstanding fines expected to be collected for accounting purposes at year end.

##### Prepaid and metered electricity

#### **43. Uncertainty and major assumptions (continued)**

It is assumed that prepaid electricity is consumed by the consumers from the date of purchase, therefore it was deemed not necessary to calculate the amount of prepaid electricity sold but not earned by the municipality at year end. All the prepaid electricity is recognised at the point of sale by the municipality. For metered electricity it is assumed the consumption of electricity from month to month is not materially different hence it was not deemed necessary to reverse the electricity consumption of June for the previous year and estimate consumption for June the following year. The net effect of offsetting both months is deemed to be insignificant. Revenue from pre-paid electricity can only be recognised on a cash basis if a municipality can demonstrate that it is unable to make a reliable estimate of revenue using the methods described above or using other accrual based measures.

##### **Provision for doubtful debts**

For the purpose of calculating impairment of debtors we could not assess the impairment of individual debtor, however we have assumed that the risk profile of each major debtor is in line with the national treasury framework guides for municipalities and other assumptions. As such provision for debtors was determined on that basis in current and prior year as shown in note 5.

##### **Discounting of creditors**

For the purpose of fair valuing creditors the period used represents the average payment period calculated as the average creditors days. The prime interest rate as published by South African Reserve Bank was used, used at year end to determine the fair value.

#### **44. Major losses**

During the year the municipality has incurred material losses due to electricity theft and ageing of electricity infrastructure within the municipality. The estimated amount of losses is R 7,679,458.

## 4.2 Budget to actual comparison

Vote number	Description	Budget/OpenBal	YTD Movement	% Exp	% Var	narrations on variances
<b><u>OPERATING EXPENDITURE</u></b>						
	EMPL RELATED COSTS-SALARIES & WAGES	17 204 109.00	16 567 810.35	96.30	3.70	
	REMUNERATION OF COUNCILLORS	1 673 151.00	1 285 193.05	76.81	23.19	
	TOTAL SALARIES & SOC CONTRIBUTIONS	18 877 260.00	17 853 003.40	94.57	5.43	
<b>REPAIRS &amp; MAINTENANCE-MUNICIPAL ASSETS</b>						
		1 681 217.00	293 642.38	17.46	82.54	
<b>BULK PURCHASES</b>						
1300-00-1-11-0005	BULK ELECTRICITY	13 068 970.00	11 542 404.37	88.31	11.69	The electricity consumption was less than expected thus the variance
<b>GENERAL EXPENSES-OTHER</b>						
1300-00-1-15-0005	ACCOMMODATION	221 000.00	88 010.75	39.82	60.18	
1300-00-1-15-0010	ADELAIDE HOBBIES	10 000.00	7 495.30	74.95	25.05	
1300-00-1-15-0015	ADVERTISING	121 500.00	66 267.59	54.54	45.46	
1300-00-1-15-0025	AUDIT COMMITTEE	130 000.00	77 002.69	59.23	40.77	
1300-00-1-15-0030	AUDIT FEES	400 000.00	8 771.93	2.19	97.81	
1300-00-1-15-0035	AWARENESS CAMPAIGN PROGRAM	120 000.00	84 723.11	70.60	29.40	
1300-00-1-15-0040	BANK COSTS	180 000.00	152 297.27	84.60	15.40	
1300-00-1-15-0045	BEDFORD GARDEN FESTIVAL	231 000.00	215 390.13	93.24	6.76	
1300-00-1-15-0050	COMPUTER LICENCE FEES	42 000.00	8 003.82	19.05	80.95	
1300-00-1-15-0055	CONSULTANTS: GENERAL	200 000.00	184 581.46	92.29	7.71	
1300-00-1-15-0060	DEPARTMENTS: ELECTRICITY	83 000.00			100.00	
1300-00-1-15-0065	DEPARTMENTS: WATER	95 000.00			100.00	

1300-00-1-15-0075	EMERGENCY PROVISIONS	15 000.00			100.00
1300-00-1-15-0085	FINANCE MANAGEMENT GRANT EXPENSES	1 200 000.00	886 785.19	73.89	26.11
1300-00-1-15-0090	FUEL & OIL	613 400.00	109 645.92	17.87	82.13
1300-00-1-15-0095	HIV / AIDS PROGRAMME	50 000.00	30 445.30	60.89	39.11
1300-00-1-15-0105	IDP REVIEW	50 000.00	22 840.00	45.68	54.32
1300-00-1-15-0120	INSURANCE: GENERAL EXPENSES	828 000.00	836 369.62	101.01	-1.01
1300-00-1-15-0125	IT SUPPORT	8 000.00	4 050.00	50.62	49.38
1300-00-1-15-0130	LABORATORY SERVICES	210 000.00	370.88	0.17	99.83
1300-00-1-15-0135	LEGAL EXPENSES	80 000.00	79 824.56	99.78	0.22
1300-00-1-15-0145	LICENSE FEES	27 540.00	19 116.06	69.41	30.59
1300-00-1-15-0155	LOCAL TOURISM ORGANISATION	30 000.00			100.00
1300-00-1-15-0165	MEMBERSHIP FEES	2 850.00	1 500.00	52.63	47.37
1300-00-1-15-0175	MUNICIPAL SYSTEMS IMPROVEMENT GRANT	750 000.00	746 589.08	99.54	0.46
1300-00-1-15-0180	PERFORMANCE MANAGEMENT	10 000.00	2 986.80	29.86	70.14
1300-00-1-15-0200	POSTAGE	180 601.00	173 568.50	96.10	3.90
1300-00-1-15-0205	PRINTING & STATIONERY	278 400.00	192 031.10	68.97	31.03
1300-00-1-15-0210	PROMOTION-SMALL MEDIUM ENTERPRISES	10 000.00	6 926.35	69.26	30.74
1300-00-1-15-0215	PROTECTIVE CLOTHING	129 000.00	61 586.00	47.74	52.26
1300-00-1-15-0220	PUBLIC PARTICIPATION	30 000.00	10 333.33	34.44	65.56
1300-00-1-15-0225	REFRESHMENTS	7 000.00	5 860.98	83.72	16.28
1300-00-1-15-0230	REFUSE BAGS	50 000.00	26 273.68	52.54	47.46
1300-00-1-15-0235	RENTALS: EQUIPMENT	100 000.00	92 776.80	92.77	7.23
1300-00-1-15-0240	REPLACEMENT: LOST BOOKS	2 500.00			100.00
1300-00-1-15-0245	ROAD SIGNS	15 000.00	6 728.86	44.85	55.15
1300-00-1-15-0250	SANITATION FEES	10 000.00			100.00
1300-00-1-15-0265	SPU S	20 000.00	6 043.21	30.21	69.79
1300-00-1-15-0275	STORES & MATERIAL	362 200.00	125 585.04	34.67	65.33
1300-00-1-15-0280	STREET LIGHTING	170 000.00			100.00
1300-00-1-15-0285	STREET PAINT	10 000.00			100.00



1300-00-1-15-0290	SUBSCRIPTION FEES	20 000.00	10 641.29	53.20	46.80	
1300-00-1-15-0295	SUBSISTENCE & TRAVELLING	271 000.00	149 092.86	55.01	44.99	
1300-00-1-15-0315	TELEPHONE / FAX / PHOTOCOPING EXPENS	254 040.00	230 967.43	90.91	9.09	
1300-00-1-15-0320	TELKOM: INTERNET	230 000.00	185 897.81	80.82	19.18	
1300-00-1-15-0330	TOURISM PROMOTION	50 000.00	20 331.48	40.66	59.34	
1300-00-1-15-0335	TRAINING - STAFF	403 282.00	72 496.84	17.97	82.03	
1300-00-1-15-0350	WORKSHOPS	10 000.00			100.00	
1300-00-1-15-0375	LED FORUM	2 500.00	1 008.00	40.32	59.68	
1300-00-1-15-0380	FIRE SERVICES	48 500.00			100.00	
1300-00-1-15-0390	TREE FELLING	50 000.00			100.00	
1300-00-1-15-0400	TOOLS	300 000.00	299 513.52	99.83	0.17	
	SUB-TOTAL: GEN EXPENSES-OTHER	8 722 313.00	5 310 730.54	60.88	39.12	
	<b>TOTAL: DIRECT OPERATING EXPENDITURE</b>	<b>42 759 760.00</b>	<b>34 999 780.69</b>	<b>81.85</b>	<b>18.15</b>	
<b><u>CAPITAL EXPENDITURE</u></b>						
1300-00-5-01-0010	COMPUTERS	15 000.00	6 807.78	45.39	54.61	
1300-00-5-01-0015	COMPUTER & PRINTER	52 000.00	8 859.99	17.03	82.97	
1300-00-5-01-0025	FURNITURE & EQUIPMENT	471 950.00	324 531.96	68.76	31.24	
1300-00-5-01-0035	MACHINERY & EQUIPMENT-CAPITAL	75 000.00	46 651.56	62.20	37.80	
1300-00-5-01-0040	OFFICE FURNITURE	15 000.00	87.68	0.58	99.42	
1300-00-5-01-0045	OFFICE EQUIPMENT	28 500.00	20 122.00	70.60	29.40	
1300-00-5-01-0055	ROADS		-52 700.55		100.00	
1300-00-5-01-0070	ADELAIDE ACCESS ROADS	2 499 939.00	1 133 881.24	45.35	54.65	
1300-00-5-01-0075	BEDFORD ACCESS ROADS	2 499 939.00	2 384 603.11	95.38	4.62	
1300-00-5-01-0085	GOODWIN PARK ACCESS ROAD	1 100 000.00	283 525.60	25.77	74.23	
1300-00-5-01-0100	OLD LINGELETHU ACCESS ROAD	1 600 000.00	682 776.75	42.67	57.33	
1300-00-5-01-0110	UPGRADING OF ADELAIDE CEMETERIES	300 000.00	215 183.39	71.72	28.28	
1300-00-5-01-0115	UPGRADING OF BEDFORD CEMETERIES	300 000.00	276 413.16	92.13	7.87	

COUNCIL CHAMBER:PHASE 2	1 600 000.00	442 758.30	27.67	72.33
GOODWIN PARK HALL	337 050.00	304 756.81	90.42	9.58
<b>SUB-TOTAL CRR NEW</b>	<b>10 894 378.00</b>	<b>6 078 258.84</b>	<b>55.79</b>	<b>44.21</b>
<b>TOTAL EXPENDITURE</b>	<b>53 654 138.00</b>	<b>44 359 544.00</b>	<b>76.56</b>	<b>23.44</b>

#### OPERATING REVENUE

<u>PROPERTY RATES</u>				
1300-00-2-01-0005	ASSESSMENT RATES	-1 950 074.00	-2 600 131.35	133.33
<u>PENALTIES IMP &amp; COLLECT. CHG-RATES</u>				
1300-00-2-03-0015	CHANGE OF AMPERES (ELEC CONSUMPTION)	-78 074.00	-53 757.07	-68.85
1300-00-2-03-0020	CONLOG INSTALLATION		-1 205.00	100.00
1300-00-2-03-0025	CONNECTION FEES: ELECTRICITY	-61 928.00	-69 302.11	111.90
1300-00-2-03-0030	PRIVATE CONSUMERS: CONLOGS	-4 784 000.00	-5 311 333.23	111.02
1300-00-2-03-0035	PRIVATE CONSUMERS: ELECTRICITY	-9 783 000.00	-7 249 937.89	74.10
1300-00-2-03-0040	RE-CONNECTION FEES: ELECTRICITY	-170 000.00	-71 851.00	42.26
1300-00-2-03-0045	DOMESTIC REFUSE	-3 144 003.00	-3 784 070.00	120.35
	<b>SUB-TOTAL: SERVICE CHARGES</b>	<b>-18 021 005.00</b>	<b>-16 541 456.30</b>	<b>91.79</b>
<u>RENT OF FACILITIES &amp; EQUIPMENT</u>				
1300-00-2-05-0030	RENTAL: CHAIRS	-12 490.00		-100.00
1300-00-2-05-0035	RENTAL: COMMUNITY HALL	-24 308.00	-23 626.70	97.19
1300-00-2-05-0040	RENTAL: CROCKERY	-1 250.00	-1 446.76	115.74
1300-00-2-05-0045	RENTAL: MUNICIPAL BUILDINGS		-69 788.72	100.00
1300-00-2-05-0050	RENTAL: TOWN HALL	-35 743.00	-32 174.37	90.01
1300-00-2-05-0055	SPORTS GROUND RENTAL	-1 415.00	-4 205.00	297.17
	<b>SUB-TOTAL: RENT FACILITIES &amp; EQUIPME</b>	<b>-75 206.00</b>	<b>-131 241.55</b>	<b>174.50</b>

	<u>INTEREST EARNED-EXTERNAL INVESTMENTS</u>				
1300-00-2-06-0010	INTEREST ON CURRENT ACCOUNT	-18 000.00	-37 201.97	206.67	106.67
	<u>INTEREST EARNED-OUTSTANDING DEBTORS</u>				
1300-00-2-07-0010	INTEREST ON ARREAR ELECTRICITY	-118 000.00	-257 797.24	218.47	118.47
1300-00-2-07-0025	INTEREST ON ASSESSMENT RATES		-946 692.04	100.00	100.00
1300-00-2-07-0035	INTEREST ON REFUSE	-123 000.00	-1 142 904.56	929.19	829.19
	SUB-TOTAL: INT EARNED-OUTST DEBT	-241 000.00	-2 347 393.84	974.02	874.02
	<u>FINES</u>				
1300-00-2-09-0010	TRAFFIC FINES	-12 000.00	-13 624.47	113.53	13.53
	<u>LICENSES &amp; PERMITS</u>				
1300-00-2-10-0005	LEANERS LICENCES	-1 200 000.00	-1 035 602.29	86.30	-13.70
1300-00-2-10-0010	MOTOR REGISTRATIONS		-34 742.68		100.00
1300-00-2-10-0015	RENEWAL OF DRIVERS LICENCES & PRDPS	-100 000.00			100.00
1300-00-2-10-0020	SPECIAL PERMITS - MOTORS	-500.00			100.00
1300-00-2-10-0025	RTMC TRANSACTIONS	-40 000.00			100.00
	SUB-TOTAL: LICENSES & PERMITS	-1 340 500.00	-1 070 344.97	79.84	20.16
	<u>REVENUE FOR AGENCY SERVICES</u>				
1300-00-2-11-0005	COMMISSION MOTOR REGISTRATIONS	-80 000.00	-174 870.11	218.58	118.58
1300-00-2-11-0010	MOTOR VEHICLE LICENSES		-480 527.37	*	100.00
	SUB-TOTAL: REVENUE FOR AGENCY SERVICE	-80 000.00	-655 397.48	819.24	719.24
	<u>GRANTS &amp; SUBSIDIES RECEIVED-OPERATING</u>				

1300-00-2-12-0010	EQUITABLE SHARE	-12 783 775.00	-12 688 654.82	99.25	0.75
1300-00-2-12-0025	INDIGENT SUBSIDY	-3 604 680.00	-3 576 150.18	99.20	0.80
1300-00-2-12-0030	INTER GOVERNMENTAL GRANT	-1 950 000.00	-1 950 000.00	0.00	0.00
1300-00-2-12-0045	PRIMARY HEALTH CARE: DEPT OF HEALTH	-2 446 465.00	-1 358 692.00	55.53	44.47
1300-00-2-12-0080	DSRAC:LIBRARY SUBSIDY	-600 000.00	600 000.00	0.00	0.00
1300-00-2-12-0090	LED:TOURISM FUND	-253 000.00			-100.00
	<u>SUB-TOTAL: OPER GRANTS &amp; SUBS REC</u>	<u>-21 637 920.00</u>	<u>-18 973 497.00</u>	<u>87.69</u>	<u>-12.31</u>
	<u>GRANTS &amp; SUBSIDIES RECEIVED-CAPITAL</u>				
1300-00-2-13-0035	<u>MUNICIPAL INFRASTRUCTURE GRANT - CAP</u>	<u>-8 039 000.00</u>	<u>-8 039 000.00</u>	<u>0.00</u>	<u>0.00</u>
	<u>OTHER REVENUE</u>				
1300-00-2-14-0010	BUILDING PLANS	-42 000.00	-34 286.72	81.63	-18.37
1300-00-2-14-0015	BURIAL FEES	-80 000.00	-105 917.60	132.39	32.39
1300-00-2-14-0020	CLEARANCE & VALUATION CERTIFICATE	-10 000.00	-14 259.11	142.59	42.59
1300-00-2-14-0060	POUND FEES	-1 760.00	-5 280.99	300.05	200.05
1300-00-2-14-0075	SUNDRY REVENUE	-675 988.00	-1 503 660.51	222.43	122.43
	<u>SUB-TOTAL: OTHER REVENUE</u>	<u>-809 748.00</u>	<u>-1 663 463.73</u>	<u>205.42</u>	<u>-105.42</u>
	<u>TOTAL: OPERATING REVENUE GENERATED</u>	<u>-52 224 453.00</u>	<u>-53 963 544.00</u>	<u>99.71</u>	<u>0.29</u>

The Primary health Care function was taken over by the department at the end of December 2010 and thus only paid half the subsidy anticipated

1 429 685.00

4.3 Grants and transfers' spending														
Grant details			Amount received and spent each quarter											
			1/04/ to 30/06		01/07 to 30/09		01/10 to 30/12		01/01 to 30/03		01/04 to 30/06		Total	
Project name	Donor name	BF amount	Rec.	Spent	Rec.	Spent	Rec.	Spent	Rec.	Spent	Rec.	Spent	Rec.	Spent
Municipal infrastructure Grant					2 000 000	840 996	3 000 000	3 383 943	3 039 000	258 718		2 513 083	8 039 000	6 996 740
Municipal System Improvement Grant					750000	212 772		310 626		187 292		35 899	750 000	746 589
Finance Management Grant		99 995			1 200000	238 207		400 678		164 170		477 728	1 200 000	1 280 783

#### 4.4 Meeting of Donors' requirements for conditional grants

The Municipality have received the following conditional grants:

- MIG
- MSIG
- FMG

All the requirements for the use of the funds have been adhered to.

#### 4.5 Municipality Long term contracts

	Contract No	name of the service provider	Description of the item leased	Type of the item leased	Asset No of the item leased	Serial Number of the item lease	start date	end date	Lease Period	monthly instalment
1		nashua	3310L	fax machine	1332	A3549500097	01/06/2009	01/06/2014	60	256.50
2		nashua	m 4000	fax machine		M5582800144	01/08/2008	01/08/2013	60	7 114.74
3		konica minolta	DI 2510 F digital copier	photocopy		21776130	11/05/2006	11/05/2011	60	2 793.00
4		konica minolta	new 2510 f digital copier	photocopy		21776001	11/05/2006	11/05/2011	60	1 932.30
5		konica minolta	bizhub 250 digital copier	photocopy		21212877	05/11/2007	05/11/2012	60	3 876.00
6		konica minolta	bizhub 250 digital copier	photocopy		21212741	05/11/2007	05/11/2012	60	4 788.00
7		konica minolta	d2510f	photocopy		21776001	22/03/2006			65.00
8		konica minolta	DI 2510 F	photocopy		21776130	16/05/2006			65.00

#### 4.6 Annual performance as per key performance indicators in financial viability

	Indicator name	Target set for the year R(000)	Achievement level during the year R(000)	Achievement percentage during the year
1	Percentage of expenditure on capital budget	10 894 378	6 078 258.84	55.79
		Target set for the year (35%) R(000)	Achievement level during the year R(000)	Achievement percentage during the year vs. the operational budget
2	Salary budget as a percentage of the total operational budget	35% 18 877 260.00	43% 17 853 003	41%
		Target set for the year (20% or less) R(000)	Achievement level during the year R(000)	Achievement percentage during the year vs. the actual revenue
3	Total actual trade creditors as a percentage of total actual revenue			
		Target set for the year (80% and more) R(000)	Achievement level during the year R(000)	Achievement percentage during the year
4	Total municipal own revenue as a percentage of the total actual budget	44% 22 547 533	25 060 254	48%
		Target set for the year R(000)	Achievement level during the year R(000)	Achievement percentage during the year
5	Rate of municipal consumer debt reduction	34 020 660.42 0910 42 816 941.55 1011	+8 796 281	-25%
6	Percentage of MIG budget appropriately spent	10 236 928.00	6 996 740.36	68.35
7	Percentage of MSIG budget appropriately spent	750 000	746 589	99.55

**The Audit committee functionality**

The municipality is expected to indicate how the Internal Audit Committee functions were carried out during the Financial Year. Recommendations of the Audit committee reports should be included in this paragraph. The entire report should be part of the annexure. The municipality should indicate in what ways the recommendations of the audit committee were addressed.

**4.7 The Audit General Reports**

**Audit Report**  
**Nxuba Municipality**  
For the Year ended 30 June 2011



**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON NXUBA LOCAL MUNICIPALITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of Nxuba Local Municipality, which comprise the statement of financial position as at 30 June 2011, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to ....

**Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010 as amended) (DORA). This responsibility includes, designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my disclaimed audit opinion.

#### **Basis for disclaimer of opinion**

##### **Trade and other receivables from exchange transactions**

7. Management did not provide explanations for the difference of R7 013 214 between the amount of R6 410 991 per trial balance on the financial system and the amount of R13 424 205 as disclosed in the statement of financial position. The municipality did not reconcile the difference of R7 013 214 between the financial statements and the underlying accounting records. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.
8. Management did not provide their calculation of the impairment of credit losses. As an alternative procedure I recalculated the impairment using industry methodology guidance provided by National Treasury and assumptions provided by management. The recalculation indicated that the impairment for credit losses recorded by the municipality is overstated by R15 522 398.
9. I did not obtain sufficient audit evidence regarding the existence of debtors amounting to an estimated limitation of R27 012 392 using a positive debtors circular and identifying payments made by the debtors for three months after year end. Using the positive debtors circular, I determined that R719 991 of debtors did not agree with the balance owing.
10. Management did not provide audit evidence to substantiate undefined differences amounting to R10 437 183.
11. Management did not provide reasons for not reclassifying debtors with credit balances of R1 423 432. As a result, trade receivables from exchange transactions and trade payables are both understated by this amount.
12. Consequently, I was unable to obtain sufficient and appropriate audit evidence regarding the existence and valuation for trade and other receivables from exchange transactions amounting to R13 424 205 (2010: R5 113 856), as disclosed in the statement of financial position.

##### **Trade and other receivables from non exchange transactions**

13. Management did not provide explanations for the difference of R2 215 962 between the amount of R2 631 861 per the trial balance on the financial system and the amount of R4 847 823 as disclosed in the statement of financial position. The municipality did not reconcile the difference of R2 215 962 between the financial statements and the underlying accounting records. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements. I was unable to perform alternative procedures and consequently I was unable to obtain sufficient and appropriate audit evidence regarding the existence and valuation for trade and other receivables from non-exchange transactions amounting to R4 847 823 (2010: R5 494 346) as disclosed in the statement of financial position.

##### **VAT receivable**

14. Management did not provide explanations for the difference of R1 571 188 between the amount of R1 098 053 per the trial balance on the financial system and the amount of R2 669 241 as disclosed in the statement of financial position. The municipality did not reconcile the difference of R1 571 188 between the financial statements and the underlying accounting records. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements. Management has not apportioned input VAT in terms of section 17(1) of the Value-added Tax Act of South Africa, 1991 (Act No. 89 of 1991) (VAT Act). As a result, input

VAT is overstated by R182 370. No supporting documentation was provided to substantiate journal entries to the value of R203 858. I was unable to perform alternative procedures. Consequently, I was unable to obtain sufficient and appropriate audit evidence regarding the valuation and existence of VAT receivable amounting to R2 669 241 (2010: 193 149) as disclosed in the statement of financial position.

#### **Prepayments**

15. Management did not provide explanations for the difference of R1 463 815 between the amount of -R246 427 per the trial balance on the financial system and the amount of R1 217 388 as disclosed in the statement of financial position. The municipality did not reconcile the difference of R1 463 815 between the financial statements and the underlying accounting records. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements. I was unable to perform alternative audit procedures and consequently I was unable to obtain sufficient and appropriate audit evidence regarding the existence, classification, valuation and completeness of and rights and obligations pertaining to prepayments amounting to R1 217 388 as disclosed in the statement of financial position.

#### **Suspense accounts**

16. Management did not provide explanations for the difference of R14 890 222 between the amount of -R12 292 856 per the trial balance on the financial system and the amount of R602 811 as disclosed in the statement of financial position. The municipality did not reconcile the difference of R14 890 222 between the financial statements and the underlying accounting records. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.
17. No supporting documentation was provided to substantiate the balance of R602 811 as disclosed in the statement of financial position. I was not able to perform alternative procedures. Consequently I was unable to obtain sufficient and appropriate audit evidence regarding the existence, classification, valuation and completeness of and the rights and obligations pertaining to the suspense account.

#### **Call investments**

18. The municipality was unable to provide audit evidence or explanations to substantiate transfers of approximately R1 634 341. I was unable to perform alternative audit procedures and consequently I was unable to obtain sufficient and appropriate audit evidence regarding the classification, valuation, and completeness of and rights pertaining to call investments amounting to R3 000 131 (2010: R568 048) as disclosed in the statement of financial position.

#### **Cash and cash equivalents**

19. Management did not provide explanations for the difference of R1 619 353 between the amount of R4 619 484 per the trial balance on the financial system and the amount of R3 000 131 as disclosed in the statement of financial position. The municipality did not reconcile the difference of R1 619 353 between the financial statements and the underlying accounting records. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.
20. No explanations were provided for the difference of R496 027 between the cashbook balance of R3 494 489 as disclosed in note 9 to the financial statements and the balance of R3 000 131 in the statement of financial position. I was unable to perform alternative procedures. An ABSA bank account (account no. 4063080837) with a



balance of R35 112 (2010: R479 170) was not disclosed in note 9 to the financial statements resulting in an understatement of cash and cash equivalents.

21. Management was unable to explain bank reconciling differences of R197 241 and R628 890 which appear on the bank reconciliations. I was unable to perform any alternative procedures on these differences.
22. The bank overdraft of R610 328 disclosed in the prior year's statement of financial position is duplicated in note 9 to the financial statements as it is included in the cashbook balance of R567 380.
23. Consequently, I was unable to obtain sufficient and appropriate audit evidence regarding the existence, classification, valuation and completeness of and rights and obligations pertaining to cash and cash equivalents amounting to R3 000 131 (2010: R568 048) as disclosed in the statement of financial position.

#### **Property, plant and equipment**

24. The fixed asset register did not contain erf numbers for land owned by the municipality. I was unable to confirm that all the land owned by the municipality as per the valuation roll was recognised in the fixed asset register and was unable to perform alternative procedures. I was therefore unable to obtain sufficient evidence regarding the existence of land totalling R1 586 496.
25. The fixed asset register contained movable assets that were disposed of during the year and, as a result, the fixed asset register is not accurate.
26. Management did not explain the difference of R1 155 591 between additions in the fixed asset register of R5 931 148 and additions of R7 086 739 per note 11 to the financial statements. Management did not explain the reasons for the amount of R7 754 506 disclosed under the heading 'difference' in note 11 to the financial statements. I was unable to perform alternative procedures. Consequently I was unable to obtain sufficient and appropriate audit evidence regarding the existence, valuation, classification and completeness of property plant and equipment as disclosed in the financial statements.

#### **Investment property**

27. The fixed asset register did not contain erf numbers for vacant land owned by the municipality. I was unable to confirm that all the land owned by the municipality, as per the valuation roll, was included in the fixed asset register and therefore disclosed in the financial statements. I was unable to perform alternative procedures. Consequently, I was unable to obtain sufficient and appropriate audit evidence regarding the existence, accuracy, classification and completeness of investment property as disclosed in the statement of financial position.

#### **Trade and other payables**

28. Management could not provide explanations for the difference of R6 524 784 between the amount of R11 075 261 per trial balance on the financial system and the amount of R4 550 477 as disclosed in the statement of financial position. The municipality did not reconcile the difference of R6 524 784 between the financial statements and the underlying accounting records. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements. No supporting documentation was provided for journal entries and creditors reconciliations resulting in a factual limitation of R14 467 921. The financial records did not allow for alternative procedures.

29. The municipality did not adhere to paragraph 35 of GRAP 1 as accruals for expenditure of R1 390 610 and accruals for employee-related costs of R485 191 were not recorded in the financial records nor were they disclosed in the statement of financial position.
30. Trade creditors were not initially recorded at fair value and subsequently carried at amortised cost. As a result, trade and other payables are overstated by R148 703 (2010: R561 172). Consequently I was unable to obtain sufficient and appropriate audit evidence regarding the existence, classification, valuation and completeness of trade and other payables amounting to R4 550 477 (2010: 8 206 744) as disclosed in the statement of financial position.

#### **Consumer deposits**

31. Management could not provide explanations for the difference of R16 004 847 between the amount of R15 107 911 per trial balance on the financial system and the amount of R896 936 as disclosed in the statement of financial position. The municipality did not reconcile the difference of R16 004 847 between the financial statements and the underlying accounting records. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.
32. No supporting documentation was provided to substantiate consumer deposits to the value of R896 936 (2010: R347 083). The financial records did not allow for alternative procedures. Consequently I was unable to obtain sufficient and appropriate audit evidence regarding the valuation, existence and completeness of and the obligations pertaining to consumer deposits.

#### **Unspent conditional grants**

33. Management could not provide explanations for the difference of R528 414 between the amount of R10 579 069 per the trial balance on the financial system and the amount of R11 107 483 as disclosed in the statement of financial position. The municipality did not reconcile the difference of R528 414 between the financial statements and the underlying accounting records. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.
34. No supporting documentation was provided to substantiate the unspent conditional grant of R8 146 533 as well as the undefined difference of -R1 043 473 as disclosed in note 16 to the financial statements. The financial records did not allow for alternative procedures. Consequently I was unable to obtain sufficient and appropriate audit evidence regarding the valuation and existence of and the rights and obligations pertaining to unspent conditional grants amounting to R11 107 483 (2010: 2960 950) as disclosed in the statement of financial position.

#### **Leave pay accrual**

35. Management did not record the movement in leave accrual on the financial system, resulting in a difference of R161 851 between the amount of R900 079 per trial balance on the financial system and the amount of R1 066 930 as disclosed in the statement of financial position. My audit procedures revealed calculation errors amounting to R315 453 in the leave accrual opening balance of R1 020 379 as disclosed in note 17 to the statement of financial position, resulting in an understatement of leave accruals and an overstatement of the expenditure incurred during the year.

#### **Revenue from non-exchange transactions**

##### **Government grants and subsidies**

36. A subsidy of R2 500 000 received from the Department of Local Government and Traditional Affairs was not recorded as revenue. As a result, revenue from government grants and subsidies has been understated.
37. A journal entry of R750 000 was passed to grants and subsidies in error. This journal entry has not been adjusted for and, as a result, grants and subsidies have been understated by this amount.
38. Management could not provide explanations for the difference of R2 089 438 between grants and subsidies per the trial balance amounting to R22 373 382 and the amount of R24 462 820 as disclosed in the statement of financial performance. The financial records did not allow for alternative procedures. Consequently, I could not obtain appropriate audit evidence relating to the occurrence, accuracy and completeness of and cut-off for grants and subsidies amounting to R24 462 820 as disclosed in the statement of financial performance.

##### **Property rates**

39. The property rates reconciliation indicated that property rates and trade receivables from non-exchange transactions are overstated by R388 062 in terms of paragraph 12 of GRAP 9.

#### **Revenue from exchange transactions**

##### **Service charges**

40. Management received revenue from pre-paid electricity that had been outstanding from previous years and recorded the full amount as revenue in the current financial year. As a result, revenue from the sale of pre-paid electricity and the accumulated surplus are overstated by R352 720. At year-end, R255 377 (2009: R353 720) in prepaid electricity had not been recorded as revenue. This has resulted in revenue being understated while receivables are understated by the same amount.
41. Meter readings were not captured accurately, resulting in an overstatement of R3 135 581 (2009: R1 772 492) in service charges and receivables disclosed in the statement of financial position. Electricity consumption is invoiced and recognised in the financial records in the month preceding the month in which it was consumed. The practice is in contravention of the GRAP requirements as revenue should be recognised when it occurs. The effect of this contravention is that revenue is not recognised in the correct financial period. Sale of electricity for July 2010 amounting to R785 580 should have been accounted for in the 2009-10 financial year and sales of electricity of R1 680 003 in July 2011 should have been recorded in the 2010-11 financial year. The net effect is that revenue is understated by R894 423, receivables from exchange transactions is understated by R1 680 003 and the opening balance of accumulated surplus is understated by R785 580.
42. Service charges for refuse removal have been incorrectly invoiced on municipal properties. As a result, services charges and trade receivables from exchange transactions are overstated by R777 401.
43. Management was not able to provide sufficient and appropriate evidence to support integrated amounts as identified in the general ledger. The financial records do not allow for alternative procedures. Incorrect tariff rates were used in calculating service



charges. This error has resulted in service charges being overstated by R849 424. Consequently, I was not able to obtain sufficient and appropriate audit evidence on the accuracy, occurrence, cut-off, classification and completeness of service charges revenue of R16 479 813 (2010: R16 134 525) as disclosed in the statement of financial performance.

**Interest earned – outstanding receivables**

44. Interest on outstanding debtors' balances has been charged at 13.05% throughout the year. In terms of section 97(1)(e) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and the municipality's credit policy, interest should be charged at prime plus 1%. As a result, trade receivables and interest disclosed in the statement of financial performance have been overstated by R528 290 (2009: R483 996).

**Other income**

45. Management was not able to provide sufficient and appropriate audit evidence for transactions recorded as other income. Subsequent inspection indicated that these amounts were VAT refunds received from the South African Revenue Service (SARS) amounting to R557 330. As a result, other income is overstated and VAT receivable is understated by R557 330. No explanations were provided to substantiate the difference of R1 543 656 between other income subsidies per the trial balance amounting to R2 017 819 and the amount of R3 561 475 as disclosed in the statement of financial performance. The financial records did not allow for alternative procedures. Consequently, I could not obtain appropriate audit evidence regarding the occurrence, accuracy and completeness of and cut-off for other income amounting to R3 561 474 as disclosed in the statement of financial performance.

**Expenditure**

**Employee cost**

46. Management did not provide explanations for the difference of R1 725 147 (2010: R1 705 328) between the amount of R16 522 811 (2010: 16 511 687) disclosed in the statement of financial performance and the amount of R14 797 664 (2010: R14 806 359) as disclosed in note 24 to the financial statements. The financial records did not allow for alternative procedures. Consequently I could not obtain appropriate audit evidence regarding the accuracy and completeness for employee related costs amounting to R14 797 664 (2010: R14 806 359) as disclosed in note 24 to the financial statements.

**Bulk expenditure**

47. Expenditure relating to the prior year totalling R1 754 386 was incorrectly recorded in the current financial year. Payments to the value of R2 500 00 made by the Department of Local Government and Traditional Affairs on behalf of the municipality were not disclosed in the financial statements. The net effect of these errors is that bulk expenditure is understated by R530 293.

**General expenses**

48. Management were unable to provide sufficient and appropriate audit evidence regarding the disposal of RDP houses totalling R6 717 985 (2010: R7 390 434). Audit procedures indicated that this expenditure did not occur during the current financial year, resulting in an overstatement of the disposal of RDP houses as disclosed in note 32 to the financial statements.
49. I was unable to obtain sufficient and appropriate audit evidence to substantiate general expenses of R877 023. Management were unable to provide sufficient and appropriate

audit evidence relating to a journal entry passed totalling R833 448. In addition to this, another journal entry was incorrectly processed to the area visits sub-account instead of audit fees, and as a result, audit fees were understated by R2 644 141 and area visits were overstated by R1 474 150. The financial records did not allow for alternative procedures. Consequently, I was not able to obtain sufficient and appropriate audit evidence regarding the occurrence, accuracy, classification and cut-off assertions relating to general expenses amounting to R12 894 242 (2010: 15 588 412).

#### **Grants and subsidies paid**

50. Grant expenditure as disclosed in note 31 to the financial statements has not been presented separately in the financial statements as required by GRAP 1 paragraph 36. As a result, R1 359 430 (2010: R4 233 106) of grant expenditure has been incorrectly classified.
51. Management could not provide explanations for the difference of R276 931 between the amount of R1 636 361 per the trial balance on the financial system and the amount of R1 359 430 as disclosed in the statement of financial position.

#### **Statement of changes in net assets**

52. The statement of changes in net assets does not cast and contains an error of R2 925 949. As a result of this error, the accumulated surplus figure in the statement of financial position is overstated by R2 925 949 resulting in the statement of financial position not balancing by the same amount.

#### **Cash flow statement**

53. The municipality did not adhere to paragraph 19 of GRAP 2 which requires cash flows from operating activities to be reported using the direct method and disclosure of major classes of gross cash receipts and gross cash payments. The cash flow statement contains undefined differences of R2 609 041 (2010: R610 328) which management could not substantiate. The municipality did not receive any proceeds from the sale of property plant and equipment amounting to R722 555 (2010: R621 567) or from suspense accounts amounting to R602 811) as disclosed in the cash flow statement. I could not obtain appropriate and sufficient audit evidence to substantiate the presentation and disclosure of the cash flow statement.

#### **Commitments**

54. I was not able to obtain sufficient and appropriated audit evidence regarding the completeness and accuracy of commitments amounting to R7 238 303 (2010: R1 419 682) as disclosed in note 34 to the financial statements. Audit procedures indicated that commitments were understated by R450 105 and not disclosed in note 34 to the financial statements.

#### **Irregular expenditure**

55. Irregular expenditure amounting to R803 587 was not disclosed in the financial statements. This was incurred because the municipality transacted with companies owned by state employees and did not adhere to the supply chain regulations 13(c), 44 and 46(2)(f). Irregular expenditure is not completely and accurately disclosed in the financial statements as required by section 125 of the MFMA.

#### **Financial sustainability**

56. While the municipality has prepared financial statements on a going concern basis there are a number of indicators that its financial sustainability is under threat. These include the following:

- Revenue is not being collected (see debtor impairments below)



- The budget has been overspent
- Non-/late payment of suppliers

The municipality might not be able to provide uninterrupted services to its community without the support of provincial and national government.

#### **Disclosure**

57. Management did not adhere to the requirements of the reporting framework set out in Directive 5 "Determining the GRAP Reporting Framework", as required by section 122(3) of the MFMA. Examples of this are as follows: Management failed to provide a comparison between actual figures and the budget as required by paragraph 12 of GRAP 1. Management also failed to comply with the disclosure requirements of GRAP 3 relating to the change in accounting policy and correction of prior period errors (refer note 36) by not fully disclosing the reason for the change in accounting policy or error, and not disclosing the previously reported account balance, the effect of the change and the new account balance as per the restated comparative figures. Management failed to comply with the disclosure requirement of IFRS 7 by not fully disclosing all risks associated with the financial instruments disclosed as well as disclosing all significant judgements and estimates relating to financial instruments (refer note 48).

#### **Opinion**

58. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

#### **Emphasis of matters**

59. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### **Restatement of corresponding figures**

60. As disclosed in notes 36 and 37 to the financial statements, certain comparative figures have been restated as a result of prior period and classification errors.

#### **Fruitless and wasteful expenditure**

61. As disclosed in note 40 to the financial statements, fruitless and wasteful expenditure of R481 530 was incurred due to interest and penalties paid to SARS for late submissions, and for outstanding electricity accounts and audit fees.

#### **Material losses**

62. As disclosed in note 44 to the financial statements, the municipality has incurred estimated losses in the current year of R7 679 458 due to electricity theft and aging electricity infrastructure.

#### **Impairments**

63. As disclosed in note 4 to the financial statements, the municipality has impaired R15 938 324 of the trade and other receivables from the exchange transactions balance.
64. As disclosed in note 5 to the financial statements, the municipality has impaired R13 706 107 of the other receivables from the non-exchange transactions balance.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

65. In accordance with the PAA and in terms of *General Notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

### Predetermined objectives

#### Usefulness of information

66. The following criteria are relevant to the findings below:
- Consistency: Objectives, indicators and targets are consistent between planning and reporting documents;
  - Relevance: A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets;
67. Audit findings:
- **The reported development priorities are not consistent with the planned priorities**  
For selected programmes, 39% of the priorities were not consistent with the planned priorities.
  - **The reported indicators is not consistent with the planned indicators**  
For selected programmes, 25% of the indicators were not consistent with the planned indicators.
  - **The reported targets are not consistent with the planned targets**  
For selected programmes, 25% of the targets were not consistent with the planned targets.
  - **Changes to planned indicators are not approved**  
All the measures and indicators which were changed during the year were not approved by council.
  - **Planned indicators are not relevant to the mandate of the municipality**  
The indicators are not directly linked with the strategic objective of the municipality in 22% of the indicators tested.

#### Reliability of information

68. The following criteria are relevant to the findings below:
- Validity: Actual reported performance has occurred and pertains to the entity;
  - Accuracy: Amounts, numbers, and other data relating to reported actual performance have been recorded and reported appropriately;
  - Completeness: All actual results and events that should have been recorded have been included in the annual performance report.
69. Audit findings:
- **Reported performance against targets is not valid, accurate and complete when compared to source information**  
The reported performance is materially misstated for validity, accuracy and completeness for the programmes infrastructure development, local economic development and financial viability.

## **Compliance with laws and regulations**

### **Budgets**

70. Unforeseeable and/or unavoidable expenditure not provided for in the annual budget was incurred but was then not appropriated in an adjustment budget, as required by section 29(2)(d) of the MFMA.

### **Annual financial statements and annual report**

71. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a disclaimer of audit opinion.
72. Fruitless and wasteful expenditure disclosed in the financial statements was not communicated to the MEC for local government or the Auditor-General as required by section 32(4) of the MFMA.
73. Various limitations were imposed on the auditors due to a lack of supporting documentation limiting the scope of the audit. This is in contravention of section 15 of the PAA.

### **HR management**

74. Payroll returns for the 2005, 2007 and 2011 tax years have not been submitted to SARS as required by paragraph 14(3) of schedule 4 of the Income Tax Act, 1962 (Act No. 58 of 1962).
75. SDL payments to SARS were not made timeously as required by section 6 of the Skills Development Levies Act of South Africa, 1999 (Act No. 9 of 1999) (SDLA).

### **Expenditure and supply-chain management**

76. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
77. Audit fees owing by the municipality to the Auditor-General of South Africa were not settled within 30 days as required by section 23(2) of the PAA and sections 65(2)(e) and (f) of the MFMA.
78. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised expenditure when it was incurred and accounted for creditors of the municipality, as required by section 65(2)(b) of the MFMA.
79. The municipality entered into prohibited transactions with suppliers controlled by state employees in contravention of regulation 44 of the Municipal Supply Chain Management (MSCM) Regulation of May 2005.
80. The municipality procured goods and services with a transaction value of between R2 000 and R10 000 without obtaining at least three written or verbal quotes, which is in contravention of the MSCM Regulations 12(1)(b), 16(a) and 16(c).
81. The municipality procured goods and services with a transaction value of between R10 000 and R30 000 without obtaining at least three written quotes, which is in contravention of MSCM Regulations 12(1)(c) and 17(1)(a).

82. Deviations from the prescribed procurement processes were not disclosed in the notes to the annual financial statements, as required by MSCM Regulation 25(5)(b)(i).
83. Management has not apportioned input VAT in terms of section 17(1) of the VAT Act.
84. VAT returns were not submitted timeously as required by section 28 of the VAT Act.
85. Certain expenditure incurred has not been disclosed as fruitless and wasteful expenditure as required by section 125(2)(d) of the MFMA.

#### **Revenue management**

86. The credit control and debt collection policy was not adhered to, as required by section 64(2)(a) as the municipality did not have an effective revenue collection system. As a result, the municipality has not adhered to the requirements of section 96 of the MSA.
87. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised revenue when it is earned, accounted for debtors or correctly accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.

#### **Asset management**

88. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.
89. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register) as required by section 63(2)(c) of the MFMA.
90. The municipality is operating its landfill sites without a permit in contravention of schedule 1 (section 19) of the National Environmental Management: Waste Act of South Africa, 2008 (Act No. 59 of 2008).

#### **INTERNAL CONTROL**

91. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

92. During the period under review, the accounting officer failed to exercise oversight responsibility over the preparation of financial statements, reporting on predetermined objectives, compliance with the laws and regulations and internal control.
93. This was evident from the numerous instances of non-compliance with laws and regulations, the findings on reporting against predetermined objectives and material misstatements identified in the financial statements that were noted throughout the audit process. This is of particular concern given the fact that none of internal audit and audit committee's recommendations appear to have been implemented.



94. Availability of key staff was an ongoing challenge for the duration of the audit.
95. There is over-reliance on the external service providers for the information technology (IT) functions of the municipality.

**Financial and performance management**

96. The municipality's systems for record-keeping do not function adequately. This resulted in some information not being supplied for audit purposes.
97. The processing of and reporting on financial and predetermined objectives were inadequate to ensure that reliable and complete reports were produced and submitted for audit purposes. This has resulted in the disclaimed audit opinion on the financial statements as well as the findings on predetermined objectives.
98. The municipality's controls to ensure compliance with relevant laws and legislation are not functioning adequately, hence the numerous instances of non-compliance with laws and regulations identified.
99. In addition to the above, the information systems control environment is weak. This puts the municipality at great risk since it is heavily reliant on its IT systems for performing day-to-day and reporting activities.

**Governance**

100. Risk identification and management processes are not designed to identify changes in processes or risks and to verify that the design of underlying controls remains effective. The municipality has not selected and developed internal controls to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.
101. An internal audit function was established during the year however; there is no evidence to indicate that recommendations are being implemented to mitigate material risks identified.
102. The audit committee was in place for the full period under review and is independent of management.

*Auditor-General*

East London  
30 November 2011



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

#### 4.8 Situation of arrears in property rates and service charges

AGE ANALYSIS - PER SERVICE	RATES	ELECTRICITY	BASIC ELEC	BASIC REFUSE	OTHER(ADMIN/IN & SU&HOUS)	TOTALS
VAT INCL						
CURRENT	153 399.90	993 212.84	161 152.95	335 333.78	345 248.08	1 988 347.55
30 DAYS	113 150.68	461 154.24	92 583.24	309 283.77	341 409.42	1 317 581.35
60 DAYS	101 080.58	302 078.96	79 226.38	300 194.98	337 949.68	1 120 530.58
90+ DAYS	8 947 130.00	2 536 264.09	664 315.44	14 125 982.71	12 116 789.83	38 390 482.07
TOTAL	9 314 761.16	4 292 710.13	997 278.01	15 070 795.24	13 141 397.01	42 816 941.55

AGE ANALYSIS PER DEBTOR TYPE	BUSINESSES	CHURCHES	RESIDENTIAL	MUNICIPAL STAFF	COUNCILLORS	GOVERNMENT	SUNDRY	TOTAL
VAT incl.								
CURRENT	771 737.06	18 760.36	1 040 663.32	6 807.37	377.08	148 212.92	1 789.44	1 988 347.55
30 DAYS	380 928.23	13 310.76	784 715.59	4 264.27	407.60	132 187.15	1 767.75	1 317 581.35
60 DAYS	306 028.23	11 462.43	724 305.51	5 429.73	472.87	71 069.13	1 762.68	1 120 530.58
90+ DAYS	3 715 001.06	213 203.52	34 026 154.70	108 247.08	8 074.92	110 405.64	209 395.15	38 390 482.07
TOTAL	5 173 694.58	256 737.07	36 575 839.12	124 748.45	9 332.47	461 874.84	214 715.02	42 816 941.55

# Chapter 5



Good Governance & Public Participation

## **Chapter 5: GOOD GOVERNANCE AND PUBLIC PARTICIPATION- (KPA 5)**

### **5.1 Community Development Workers Performance Monitoring**

The relationship between the administration and the office of the Mayor \Speaker is in a very good standing.

- The CDW submit monthly reports to the province not to the municipality but the Office of the Mayor\Speaker is in the process of signing a Memorandum Of Understanding with the DLGTA in order to have safeguards for monitoring the CDW`s reports before their submission to the DLG&TA. Community surveys were by municipal volunteer`s e.g. free basic services etc.
- CDW`s assisted Sector departments when they performed door-to-door campaigns to lobby communities.
- CDW`s fully participated in all activities that were done by the municipality. These included IDP/Budget meetings, Imbizo, Mayoral Outreach Programs and other activities organized by the municipality.

Nxuba Municipality developed a system\plan where CDW`s and Ward Committees met on a monthly basis to submit and discuss progress of various issues \ projects. Nxuba Municipality assisted the CDW`s with various resources in order for them to easily perform their tasks :

1. Use of Telephone, Fax and Photocopier
2. Transport to meetings

The CDW`s are always willing to assist the Administration in the following manner:

- Attending all public meetings
- Distribution of pamphlets when requested to do so
- Informing the public on various issues
- Motivating communities to participate in community meetings.

Furthermore, CDW`s play a vital role in communicating challenges experienced by the communities to the municipality by ensuring that these issues are addressed. The challenge facing CDW`s is office space but the municipality did provide them with space where possible.



## **5.2 Communication strategy**

The institution has drafted a communication strategy that seeks to achieve the following objectives:-

- To improve confidence and trust of the community in Nxuba Municipality and its service delivery programs by communicating achievements and showcasing success stories
- To improve public participation in the affairs of Nxuba Municipality
- Strengthen strategic partnerships and enhance intergovernmental relations
- To communicate with Nxuba Municipality `s IDP and Budget programs and projects through community stakeholders' forums

### **Communication and Platform**

There is a wide range of communication tools that are utilised

#### **Public Events**

- IDP \ Budget Road show
- Mayoral Imbizo`s
- Mayoral Outreach Programs

The Nxuba Municipality honours the campaigns together with sector departments such as 16 Days of Activism Campaign ,Tourism Month, Women`s Month, Heritage Month, Extended Public Works Programs, Library Week .

### **Monitoring and Evaluation**

Communication activities are an important element of the Nxuba Communication Strategy in order to ensure that the strategy is being implemented and has its desired impact .The monitoring and evaluation system can provide important feedback on whether messages are being understood as intended and how the communication strategy might need to be adjusted. The first step in Monitoring and Evaluation is to establish baseline information for the impact areas in the strategy through :

- Ward Committees
- IDP \ Budget Road-shows
- Conducting a stakeholders Analysis and Perception survey
- Evaluating the worth and effectiveness of the tourism marketing campaign such as Bedford Garden Festival.

### **5.3 Anti-corruption strategy**

The Municipality drafted the Fraud Prevention Policy with the assistance from Department of Local Government. The Policy was workshopped to both staff and Council, thereafter Council finally adopted it.

### **5.4 Intergovernmental Relationship Strategy**

The Constitution of R.S.A. (Act 108 of 1996) clearly indicates that the National, Provincial and local spheres of government are distinctive, interdependent and interrelated. Section 41(1) of the Constitution alludes to cooperation, mutual trust and good between these three spheres. Further, based on the parameters created by the Constitution and key to the concept of the Developmental State, the municipality sees it as imperative to embark on development planning, coupled with the policy imperative of coordination and integration between the three spheres of government

Section 5 of the Intergovernmental Relations Act (No.13 of 2005) makes provision that the three spheres of Government, in conducting their affairs, must seek to achieve the object of this Act by:

- Taking into account circumstances, material interests and budget of other government and organs of state in other government, when exercising their statutory functions :
- Avoiding unnecessary and wasteful duplication or jurisdiction contests
- Taking all reasonable steps to ensure that they have sufficient institutional capacity and effective procedures.

The IGR Forum Act explains the principles of IGR and cooperative government providing the basic architecture of IGR structures, procedures and policies for settling intergovernmental disputes The Mayor \ Speaker resolved to establish an IGR Forum that serves as an instrument for mobilising the distinctive efforts, capacities, leadership, and resources of each sphere towards service delivery and development objectives .

In terms of the IGR structures functionality, the sector departments participation is very poor. Nxuba has engaged with DLGTA and OTP to assist in this regard especially to improve the poor attendance by sector departments.

## **Institutional Arrangement: Nxuba IGR Forum Operation**

### **Objectives of Nxuba IGR Forum**

- To establish a formalised process to manage the relationships between the municipalities with regards to service delivery with specific reference to planning implementation, monitoring, reporting and review
- To facilitate for a conducive platform for technical support, knowledge and expertise-sharing in matters of mutual interest.
- To prioritise projects and development initiatives that address community needs.
- To facilitate consistency between the municipality and sector departments that will create the necessary operational intelligence with regards to preventing duplication and wastefully expenditure.

### **Forum composition**

- The Nxuba Municipality IGR is led by the Honourable Mayor \Speaker or his \ her delegated nominee upon his/her absence
- The IDP officer provide secretariat support
- Nxuba IGR Forum is composed of the municipal manager, sector departments, Official from Office of The Premier and Department of Local Government and Traditional Affairs.

### **Functioning of Nxuba IGR Forum**

- It functions as a consultative forum where issues of mutual interest are discussed
- Serves to facilitate and promote IGR between all stakeholders
- To implement any matter arising from District Inter-Governmental Relations, the Muni-MEC and Office of The Premier

### **Schedule of meetings**

- This Forum should convene their meetings on monthly basis
- IGR cluster at least quarterly

### **Functionality of Ward Committees**

In Nxuba Municipality, the functioning of ward committee system augurs well for the future as they are newly elected. Nxuba Municipality believes that the proper functionality of Ward Committees will assist the municipality in championing service delivery programs.

The office of the Mayor \ Speaker is engaging ward councillors on the status of their committees in order to hold meetings as per schedules with the communities and reports on the challenges experienced in the various ward.

Nxuba Municipality is in a process of establishing well-resourced ward councillors, with ward committee offices where they will have secretaries. An Induction Workshop for ward committees has been conducted by the Office of The Premier and Department of Local Government and Traditional Affairs in order to capacitate them. Ward Committees must submit their reports on sittings to the Office of the Mayor \ Speaker and the council for consideration.

Nxuba Municipality doesn't have communications unit. This is assigned to an official from the office of the Mayor \ Speaker who liaises with ADM, OTP and DGLTA on various matters.

The Ward Committees were established on the following dates:

Ward 1: Ward Councillor Sizakele Aubrey Ndyambo

Date: 15\08\2011

Ward 2: Ward Councillor Louisa Leonora Bruintjies

Date: 16\08\2011

Ward 3: Ward Councillor Pasika Jack

Date: 10<sup>th</sup> August 2011

Ward 4 Ward Councillor Bulelwa Mentoora

Date: 11<sup>th</sup> August 2011

## **Nxuba Local Municipality and Nelson Mandela Bay Metropolitan Municipality (NMBMM) Twinning Partnership**

Nxuba Local Municipality -which is a category “B” Municipality- and Nelson Mandela Bay Metropolitan Municipality -which is a category “A” Municipality established in terms of Section 12 notice of the Local Government Municipal Systems Act No.117/98, entered into negotiations with the view of the principle of co-operative governance in the year 2005. Both municipalities acted in accordance with a resolution of the Council of the NMBMM and, aspiring to enhance co-operation between them and ourselves, agreed to the establishment of an inter municipal forum wherein both mayors are responsible for co-ordination.

### **Purpose of the forum**

The purpose of the forum would amongst other things be:

- The promotion & facilitation of Inter-Governmental Relations between the municipalities
- To serve as a consultative forum to discuss and consult each other on matters of mutual interest which includes information sharing, best practices and capacity building particular in the following areas:
  - Human Resources Development
  - Economic Development & Agriculture
  - Infrastructure & Engineering
  - Sport, Recreation & Culture
  - Environment & Health Services
  - Legal & Corporate Affairs
  - Finance

The Memorandum of Understanding was signed in 2006 by both parties. Nxuba Municipality needs to make a follow-up as we all know that this is a new council and we need to have a series of meetings to engage new councillors in this matter.

### **5.5. Legal Matters**

Nxuba Local municipality does not have a Legal Unit in place but the legal matters are handled in the Human Resources section and the office of the Municipal Manager. The municipality is guided by Hearing Procedures from the Bargaining Council when undertaking disciplinary hearings as there are no policies adopted by the council.

### **Case age analysis**

There has been only one legal matter during the 2010/11 financial year. This refers to the appeal in the High Court of South Africa (Grahamstown), Case No: 3930/09 parties involved are Makhaya Mana & others vs Fikile Ngqwebo. Mr. Fikile Ngqwebo was a Councillor in Nxuba who was recalled by his political party. In response to this, the Municipality declared a vacancy and the Councillor was replaced. The Councillor took the Municipality to Court in order to be reinstated as a Councillor and he won the case. The Council decided to appeal and has now obtained the leave to appeal. The matter has set for final resolution for November 2011.

## **PART 3- FUNCTIONAL AREAS REPORTING AND ANNEXURE**

### **A. Functional Area Service Delivery Reporting**

#### **1. General information (population statistics)**

Nxuba Local municipality is located in the Amathole District Municipality and is approximately 275 000 ha in extent and is located approximately 200km from East London and 230km from Port Elizabeth. The population of Nxuba Local Municipality is approximately 24 825. It is hoped that new Census will give us a more accurate idea of the population figures and breakdown.

#### **Socio-economic context**

- There are approximately 24 801 people residing in the Nxuba Municipality
- 5 427 households with the average household size of 4,7 people per household
- 82% of the households live in the urban areas
- Economically active group constitutes 47,0%
- More than half the population is female (53%)
- 62% of the households are headed by males
- A population growth rate of 0,94 has been experienced over the past 5 years;
- There has been an increase in the unemployment rate over the past 10 years from:
  - 36% to 53% - Adelaide
  - 28% to 39% - Bedford
- Agriculture, Government and Community services sector employ the majority of the workforce (77%)
- 58% of the households earn less than R 18 000 per annum
- The dependency ratio is 2 people for each employed person
- 71% of the households are living below the minimum living level
- Agriculture, Government and Trade is an important contributor to the GGP of the region

Source: 2007 Community Survey

## 2. Finance and Administration function's performance

### Overview

This is responsible for income, expenditure and budget of the municipality

### Description of the activity

The functional area includes cashiers, billing services, credit control, expenditure, budgeting

### Analysis of the function

Debtor collections: value of amount received and interest (value received from monthly billings each month and interest from the previous month across debtors by function e.g. electricity, rates etc. and by category- Government, Business, Residents and Indigents.

Write off of debts: number and value of debts written off (total debts written off each month across debtors by function- rates, electricity etc): None

Property rates (Residential) & Commercial

- Number and value of properties rated: 7177 at R 421,718,590.00
- Number and value of properties not rated: None
- Number and value of rate exemptions: None
- Rates collectable for the current year: R 1,727,163.95

The property rates for both commercial and residential has been combined.

Property valuation

- Year of last valuation- 2009
- Regularity of valuation- Every four (4) years

Indigent Policy

- Quantity: 1890
- Monetary values : Refuse = R 887,014.80, Electricity,= R 895,860.00 = R 1,782,874.80

Credit Payments

- |                                |   |      |
|--------------------------------|---|------|
| • Credit Rating                | - | None |
| • External Loans               | - | None |
| • Delayed and Default Payments | - | None |



### **3. Planning and development function's performance**

- The Nxuba Local Municipality has zoomed in on Social and Economic Development and Environmental Management of the entire area. The Administration has fully implemented the Batho Pele principles which were adopted by Council. The scene has been set and the momentum is in place for improved service delivery, greater responsiveness and increased accountability.
- The broad development strategies and targets are contained in the respective master plans, which, in turn, are enshrined in the IDP.
- Essentially, the IDP has been (and should always be) compiled with a strong focus on service delivery and infrastructure investment with the aim to achieve strategic development goals. In the process we have pursued a more practical IDP, which is holistic in order to enhance municipal performance.

The IDP is practical in the sense that ideally it focuses on:

- Dealing with backlogs
- LED initiatives
- How to alleviate poverty
- Socio economic development
- SDF
- Effective use of scarce resources
- Sustainable development
- Coordination between all spheres of Government
- Developing Municipal capacity within the IDP framework.

#### **Overview**

Through IDP, LED and SDF the municipality bridge the gap between rich and poor through job creation, tourism and release of land for the poor. An LED Charter, the first in the Country was launched to make Local Economic Development a reality rather than a dream.

#### **Description of the activity**

The successful implementation of the IDP was achieved through the bottom up approach, namely

- Full community participation
- Strengthening community structures
- Engaging local residents
- Providing accountable, transparent and fair representation
- Ensuring a consultative and sustainable process throughout

The establishment of 4 Ward Committees makes it a lot easier to respond more speedily to the Community's needs and aspirations and provide a firm form of support to ensure fair and equitable service delivery

**Key issues include the following:**

- High unemployment rate
- High rate of illiteracy
- High rate of poverty
- Slow rate of economic growth

**Analysis of the function**

- Number and cost of all economic development personnel:
  - Local Economic Development and Tourism Officer
  - Contract : None
  - Detail and cost of incentives for business development
  - List of incentives by project, with total actual cost to municipality for the year
  - Detail and cost of other urban renewal strategies:
  - Short and long-term employment
  - Number and cost to employer of all Building Inspectors employed

Nxuba Local Municipality only has one permanent building inspector who is servicing both the rural and the urban nodes.

Details of building plans approved:

- Nxuba Local Municipality managed to approve fifty eight (58) building plans. The approved plans include extension of units, new construction, garages and boundary wall. This includes approved plans of urban node.

Value of building plans approved

- The value of approved building plans for 2009/2010 financial was R13 383 023.

#### 4. Community and social services function's performance

##### Overview

- Community and social services function include library services, disaster management, primary health care, community safety.

##### Description of the activity

- The activities that are administered both by the municipality and Amathole District Municipality include disaster management as ADM has deployed 4 fire fighter volunteers. Nxuba Local Municipality is playing an agency role with regards to Library Services and Primary Health Care as both services receive subsidies for DSRAC and Department of Health respectively.

##### Key issues include the following:

- Shortage of equipment, medicine, medical staff
- Mobile clinic
- Ambulance
- Disaster Management Plan
- Mobile Police Station to service farm areas

##### Analysis of the function

- Nature and extent of facilities provided:

##### ➤ *Library Services*

Nxuba Local Municipality is composed of three (3) functional public libraries which are in a good working condition.

##### ➤ *Museums and art galleries*

Nxuba Local Municipality is composed of one (1) museum which is situated in Adelaide town.

##### ➤ *Community halls/facilities*

There are seven (7) functional community halls in Nxuba which are widely located in Adelaide and Bedford. Although there is a marked shortage of tables, chairs and other equipment.

##### ➤ *Cemeteries and crematoriums*

There are no crematoriums in the area and it only possesses ten (10) cemeteries wherein some of them have been closed due to the fact that they are full. Nxuba's SDF has identified additional land that could be used for cemeteries.

➤ *Child care including crèches*

Nxuba Local Municipality is composed of 10 crèches that are evenly shared both in urban and rural nodes.

➤ *Aged care including old age homes, home help*

There are three old age homes at: Adelaide Town, Bezuidenhoutville and Bedford Town.

➤ *Schools*

Seven primary schools and four high schools

➤ *Sport facilities*

Two golf courses, one tennis and one bowling green (all privately maintained) and ten sport facilities that are maintained regularly, funding permitting.

• **Number and cost to employer of all personnel associated with each community services function:**

- Library Services- Librarian deployed by DSRAC which is a three year contract two Librarians, two Assistant Librarians and Messenger /Cleaner
- Museums and art galleries – Assistant Head, and two cleaner
- Community halls/facilities – four general workers
- Cemeteries and crematoriums- two general workers
- Child care including crèches
- Aged care including old age homes and home help
- Schools – Department of Education
- Sport facilities - One Grounds man
- Parks – two general workers

Museums and art galleries are maintained by DSRAC, schools are a function of the Department of Education, then Child Care and the Aged Care is a function of the Department of Social Development. The municipality does not incur any costs in the operation of those institutions.

- Total operating cost of community and social services function: R 0000

## 5. Housing function's performance

### Overview

- Nxuba Local Municipality managed to apply for title deeds from the Conveyancer but no houses have been handed over to beneficiaries. Nxuba Local Municipality plays a monitoring role of the housing function as provincial department is providing this service to communities.

### Description of the activity

- The activities that are administered by the municipality includes when one owner of the house wants to sell his/her house to another person, the municipality checks if the previous owner is owing the municipality on services rendered to them and if not, then the previous can sell the house to the buyer. A clearance certificate is then issued by the municipality to the owner.

### Key issues include the following:

- Institutional capacity
  - Statistics
  - Housing backlog
  - Infrastructure

### Analysis of the function

- Number and cost of all personnel associated with provision of municipal housing:
  - Senior Clerk Housing
- Number and total value of housing projects planned and current
  - Planned - 7 sites
- Total type, number and value of housing provided
  - None
- Total number and value of rent received from municipal owned rental units
  - 3 municipal owned rental units and amount received is R 46,800
- Estimated backlog in number of (and costs to build )housing : 3 146 units
- Type of habitat breakdown

The numbers listed below are number of households living in the type of dwelling listed

- Number of people living in a house or brick structure – 2,000
- Number of people living in a traditional dwelling- 1,139
- Number of people living in a flat in a block of flats - none
- Number of people living in a town/cluster/semi-detached group dwelling - 600
- Number of people living in a formal dwelling or shack - 600
- Number of people living in a room/flat let – none

- Total operating cost of housing function: R 157.198

### **Key performance area**

- The municipality only monitors the services on behalf of the province.

## **6. Waste Management function's performance**

### **Overview**

- Waste management in Nxuba Local Municipality includes refuse removal, solid waste sites and street cleaning.

### **Description of the activity**

- This function is administered in the technical services department with services properly rendered by the officials. Refuse is collected once a week in both rural and urban nodes. Two (2) waste sites are fully functional.

### **Analysis of the function**

- Number and cost to employer of all personnel associated with refuse removal
  - Professional: none
  - Field (Supervisor/Foremen): 2 X Foremen
  - Office: none
  - Non-professional: forty seven (47)
- Number of households receiving regular refuse removal services and frequency and cost of service
  - Removed by municipality at least once a week: 3000 households
  - Removed by municipality less often: zero(0)
  - Communal refuse dump used: 100%
  - Own refuse dump: none
- Total and projected tonnage of all refuse disposed
  - Domestic: 2 200 tons per annum
  - Commercial: 1 300 tons per annum
  - Garden: 1 140 tons per annum
- Free Basic Services Provision
  - Quantity: 895 in Bedford and 950 in Adelaide
  - Quantum: R 84.11 for each household
- Total operating cost of solid waste management:

## **7. Electricity distribution function's performance**

### **Overview**

- The main concentration of this section is the maintenance of electricity reticulation and connection to consumers. The municipality supplies Adelaide and Bedford with electricity - CONLOG and Eskom supplies other areas. The municipality is just assisting Eskom with maintenance in other areas.

### **Analysis of the function**

- Operation and maintenance of electrical network.
- Provision of Free Basic Electricity.
- Installation of electricity in key areas.

### **Number and cost to employer of all personnel associated with electricity distribution:**

Technical Services Manager

- Electrician X 2
- Electrical assistants

### **Number of households with electricity access and type and cost of service:**

25 000 population have access to electricity.

# **NXUBA MUNICIPALITY**



## **MPAC OVERSIGHT REPORT 2010/2011**



# **THE OVERSIGHT REPORT OF THE MPAC FOR THE 2010/2011 ANNUAL REPORT**

## **1. MPAC ESTABLISHED IN NXUBA MUNICIPALITY**

- Cllr P Jack - Chairperson
- Cllr C Auld
- Cllr E Lombard
- Cllr B P Mentoorn
- Cllr S A Ndyambo

## **2. FUNCTIONS OF MPAC**

The Council further adopted the MPAC framework which stipulates the following as duties and functions of the MPAC:-

- To report to Council on the activities of the committee
- To review the municipal quarterly or annual reports and develop the oversight report on the annual report
- To examine the financial statements and audit reports of the municipality, and in doing so, the committee must consider improvements from previous statements and reports and must evaluate the extent to which the Audit Committee's and the Auditor General's recommendations have been implemented
- To promote good governance, transparency and public accountability
- To examine the Mid-Year Review documents in line with the Integrated Development Plan
- To recommend any investigation in its area of competence to Council
- To seek any information and have access to it from any Councillor / Employee
- To perform any other function assigned by the resolution of the Council.

### 3. PROCESS TOWARDS THE ADOPTION OF THE ANNUAL REPORT

Date	Day	Time	Meeting	Responsibility
09/03/2012	Friday	n/a	Notice to the newspaper of record on the availability of the Draft Annual Report in the two units.	MM
12/03/2012	Monday	10H00	Meeting between the Mayor, MM and Chairperson of MPAC	MM/ Mayor
16/03/2012	Friday	12H00	Presentations of the Draft Annual Report by the management to the MPAC for discussion and inputs.	MM & All Managers
19/03/2012 Bedford	Monday	10H00	Public hearings in the two units in Nxuba-Draft Annual Reports (MPAC to establish 2 teams from among themselves and administrative support).	Chairperson of the MPAC
20/03/2012 Adelaide	Tuesday	10H00	Public hearings in the two units in Nxuba-Annual Reports(MPAC to establish 2 teams from among themselves and administrative support)	Chairperson of the MPAC
23/03/2012	Friday	12H00	Consolidation of the inputs from the public and development of the oversight report on the Draft Annual report.	Chairperson of the MPAC
28/03/2012	Wednesday	10H00	Presentation of the MPAC report on the Draft Annual Report to the full Council and making recommendations.	Chairperson of the MPAC
27/04/2012	Friday	n/a	Bind the final Annual Report into a booklet to be circulated to various stakeholders.	MM

#### **4. SUMMARY OF ISSUES RAISED BY RESIDENTS**

- Housing
  - Why was Bedford not approved
  - Tittle Deeds of the Goodwin Park houses
  - The RDP houses not given to their beneficiaries
  - Temporary houses for the residents affected by the disaster
- Lack of road maintenance
- Water problems
- Disclaimer opinion
- No local economic development
- Illegal dumping site
- Disconnections to indigent people
- Tenders not benefiting local people
- Consultants not completing their work
- Illegal connections
- Public participation
- Write off debt for indigents

#### **5. RECOMMENDATION**

- Financial management & internal control
- Audit Action Plans
- Review Supply Chain Policy
- Need for Proper Record Keeping
- Implementation of Council Resolutions
- Financial Management and in Control
- LED Strategy
- Spatial Development Framework
- Repair of Roads
- Head Count of Employees
- Update employee files
- Waste Management Plan
- Land Audit exercise to be done
- Housing Projects to be unblocked
- Repair faulty meters
- Improve public participation processes
- Debt write off policy
- Improve service delivery

## 6. ACKNOWLEDGEMENTS

The MPAC wishes to place on record its appreciation for the cooperation, dedication and support it has received from the following:

- The Mayor and this Council
- The Acting Municipal Manager, Management and the Staff
- COGTA (Provincial and National)
- Audit Committee
- Auditor General's Office
- Citizens of Nxuba Municipality

## RECOMMENDATIONS

- **THAT** the Council adopts the revised 2010/2011 Annual Report without any reservations
- **THAT** the issues identified above be incorporated in the Audit Action Plan

Signed by:

.....  
Cllr. P Jack

Chairperson of Nxuba MPAC